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## CONTENTS

Recent Developments in Railroad Freight Rates	
	<i>John P. Carter</i> 379
The Regional Significance of the Integration Movement in the Southern Textile Industry	<i>Solomon Barkin</i> 395
Industrialization and the South	<i>John V. Van Sickle</i> 412
Organization and Collective Bargaining in the Local Mass Transportation Industry in the Southeast	<i>Frederic Meyers</i> 425
The Mediation Process	<i>Edgar L. Warren and Irving Bernstein</i> 441
Coordination of Federal and State Income Taxes	<i>Edward W. Reed</i> 458
Book Reviews	473
By David McCord Wright, John V. Van Sickle, Frank B. Ward, Francis E. Kennedy, John T. Masten, Ross M. Robertson, George T. Starnes, John L. Fulmer, Albert S. Keister, Edward C. Simmons, Clarence Philbrook, George E. Lent, Donald F. Mulvihill, Royal Mattice, Richard P. Calhoon, Alexan- der I. Warrington	
State Reports	492
By Langston T. Hawley, C. H. Donovan, Albert Griffin, Paul T. Hendershot, David McKinney, C. K. Brown, James E. Ward, Herman P. Thomas	
Personnel Notes	502
Notes	505
Books Received	507

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A JOINT PUBLICATION OF THE SOUTHERN ECONOMIC ASSOCIATION  
AND THE UNIVERSITY OF NORTH CAROLINA

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*The* SOUTHERN ECONOMIC JOURNAL

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RECENT DEVELOPMENTS IN RAILROAD  
FREIGHT RATES

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Recent decisions of the Interstate Commerce Commission have altered both the level of railroad rates and the relationships among them. The basic purpose of most of the rate increases described below has been to yield larger gross revenues to the carriers, since it is implicitly assumed by both carrier management and regulatory authority that the demand for freight transport is inelastic at present rate levels. That assumption is probably broadly correct. Not all rates, however, have been changed in the same proportion. Diverse treatment has been accorded both to geographical areas and to particular commodities. The changed rate relationships thus produced sometimes give rise to problems.

## I

We shall, initially, present a chronological resumé of the recent general decisions. The most important of these, which we shall discuss herein, are *Ex Parte* 148, *Ex Parte* 162, Docket 28300, *Ex Parte* 164, and *Ex Parte* 166. During the thirties, there were several rate level cases,<sup>1</sup> which resulted in upward revisions. Such cases had been incorporated into the rate structure by the outbreak of the war.<sup>2</sup> Between the time of Pearl Harbor and V-J Day there was only one case on the general rate level but since the war's end cases have developed rapidly.

1. The first case, *Ex Parte* 148, was originally decided in the early spring of 1942.<sup>3</sup> The carriers had asked for a general 10 per cent increase in freight rates, with certain exceptions on which smaller increases were proposed. The commission permitted freight rates in general **to be increased** 6 per cent, subject to considerable exceptions. The excepted commodities were "basic or raw products of agriculture," "animals and animal products," and "products of mines." On all of these, the increase was limited to 3 per cent, except for coal, which received still further specialized treatment.<sup>4</sup>

<sup>1</sup> Among the more important were *Ex Parte* 115, 223 ICC 657; and *Ex Parte* 123, 226 ICC 41, 1938.

<sup>2</sup> The transcontinental structures of class rates and of some of the more important commodity rates appear in Stuart Daggett and John P. Carter, *The Structure of Transcontinental Railroad Rates*. The Board of Investigation and Research, Transportation Act of 1940, *Report on Interterritorial Freight Rates*, Washington, D. C., describes the pattern of rates, and especially class rates, east of the Rocky Mountains.

<sup>3</sup> 248 ICC 545. In this and some other proceedings, both freight rates and passenger fares were involved, but we have not considered passenger fares in this paper.

<sup>4</sup> 248 ICC 545, 621.

The increases authorized in *Ex Parte* 148 were denominated temporary and subjected to periodic review. They were suspended in the spring of 1943,<sup>5</sup> largely as a consequence of the greatly increased earnings from war traffic. Further reconsideration led to continued suspension of the increases until the summer of 1946.<sup>6</sup> Thus, except for the temporary increases during 13 months of 1942-43, the rate level remained unchanged from the spring of 1938 until the summer of 1946.

Effective July 1, 1946, the *Ex Parte* 148 increases were temporarily restored, with certain modifications, pending a broader upward readjustment of freight rates.<sup>7</sup> One modification of the original *Ex Parte* 148 increases was that rates on traffic wholly within Official Territory<sup>8</sup> were increased another 5 per cent, in addition to the 6 per cent originally authorized. Thus Eastern rates became 11.3 per cent higher than their prewar level. Another modification provided for larger increases on coal traffic. Finally, rates on iron ore, which had originally been increased 3 per cent, were changed to a flat increase which ranged from 2¢ per gross ton in the East to 3½¢ per gross ton in the South and for interterritorial shipments.<sup>9</sup>

2. The higher rates authorized in the restoration of the *Ex Parte* 148 increases were in the nature of an interim adjustment, pending a decision on the larger increases requested by the carriers in *Ex Parte* 162, filed April 15, 1946. In that case the carriers asked for a general 25 per cent increase, with a few exceptions.

In December 1946, the commission granted general increases under *Ex Parte* 162, but in smaller amounts than requested by the carriers, to become effective January 1, 1947.<sup>10</sup> The *Ex Parte* 162 increases were to be calculated from the rates in effect December 5, 1946, minus the increases authorized in *Ex Parte* 148. This really meant they were to be calculated from the 1938 level, since no general change other than *Ex Parte* 148 had taken place since that date, although modifications had taken place in many individual rates. The adjustments of *Ex Parte* 148 became thus a matter of history.

The *Ex Parte* 162 increases varied according to both the commodity and the geographical region. Class rates were increased 25 per cent within Official Territory, 20 per cent elsewhere, and 22½ per cent on traffic between Official Territory and other territories. The wide range of commodities falling into the

<sup>5</sup> 255 ICC 352.

<sup>6</sup> 256 ICC 502, decided Nov. 8, 1943; 258 ICC 455, decided May 12, 1944; 259 ICC 159, decided Dec. 12, 1944; and unpublished order of Oct. 30, 1945.

<sup>7</sup> 264 ICC 695, 744.

<sup>8</sup> The geographical extent of the rate-making territories is irregular and depends in part upon the direction of traffic flow. They may best be described by maps. Useful maps appear in Board of Investigation and Research, *op. cit.*, and in the *Freight Traffic Red Book*, New York. Official or Eastern Territory lies north of the Ohio River and is bounded by and includes Illinois on the west and Virginia on the south.

<sup>9</sup> An interesting problem appears here. In general, rates in Official Territory were raised more than elsewhere, but on iron ore Official increases were less than elsewhere. Is the demand for the transport of iron ore more elastic in the East than in the South?

<sup>10</sup> *Ex Parte* 162, 266 ICC 537.



general classification of manufacturers and miscellaneous received the same treatment. Other commodities received a 20 per cent increase, but there were numerous exceptions. Rates on certain commodities were increased by percentages smaller than 20 per cent, increases on other commodities were limited to a maximum amount in dollars and cents, on other products these two limitations were combined, while on still others all rates were increased by flat amounts in cents, or initial rates were grouped by dollar amount and flat increases in cents applied to each group, the larger increases going to the higher groups.<sup>11</sup>

3. Another case of considerable importance to the structure of transcontinental railroad rates, *Ex Parte* 164, was begun in the early spring of 1946, prior even to the restoration of the *Ex Parte* 148 increases, and an interim decision was handed down in the summer of 1947. This was a case initiated by the Maritime Commission and the War Shipping Administration, joined by the private operators of the intercoastal steamship service.<sup>12</sup> At the outset, the shipping interests launched an attack on the transcontinental railroad rate structure, and especially on its very marked taper and widespread blanketing. Historically, this rapidly decreasing rate of increase of the transportation price with increasing distance is in part an outgrowth of the rivalry between the rail and water carriers. In effect, the lower water rates served to establish upper limits to the rates which the rail carriers could charge for the haul from coast to coast. Thus rail rates increase rapidly with distance in the short hauls, but very much less rapidly, if at all, as the other coast is approached. Essentially, the water carriers asked the Interstate Commerce Commission to prescribe transcontinental rates which would progress uniformly, or more uniformly than the present rates, with distance through the use of the commission's authority to prescribe minimum rates.<sup>13</sup> In that way, coast-to-coast rates would be raised substantially. In its interim decision of June 1947,<sup>14</sup> however, the commission made no finding on these broader issues, although the case was held open for such findings in the future. Specific rate proposals by the carriers in *Ex Parte* 164 were limited to those commodities which might reasonably move by water. On that limited list of commodities, the rail carriers asked for the balance of the increases for which they had originally asked in *Ex Parte* 162, but which they did not receive.<sup>15</sup> Essentially, this meant the rails were asking for rates 25 per cent above the levels

<sup>11</sup> E.g., rates on coal up to \$1 per net ton were increased 15¢, those over \$1 and not over \$2.25 were increased 25¢, and those over \$2.25 were increased 30¢. (266 ICC 537, 620). From the wording of the order, coal rates of exactly \$1 apparently inadvertently received no increase.

<sup>12</sup> When intercoastal vessel service was initially resumed after the war, it was carried on by these government authorities, using the certificated private operators as their agents. There was a gradual increase in voyages for private account, and on July 1, 1947, the government withdrew entirely from the intercoastal trade.

<sup>13</sup> Gulf Intercoastal Conference, *Brief and Exhibit, Ex Parte* 164, Oct. 16, 1946.

<sup>14</sup> 268 ICC 567.

<sup>15</sup> Circular letter from H. C. Barron, Counsel, Trans-Continental Freight Bureau, April 5, 1947, p. 1.

established in 1938 (but not that much above the levels established in 1947).<sup>16</sup> Additional increases were asked on certain fabricated iron and steel articles westbound,<sup>17</sup> although the commission had given the rail carriers the full increase for which they had asked in *Ex Parte* 162.<sup>18</sup> Water carriers asked equal or larger increases in absolute amounts in cents per 100 pounds, which, since water rates are below the rail level, meant percentage increases considerably larger than those proposed by the rails.

In its interim decision, the commission granted the increases proposed by the rail and water carriers. This decision increased rates on only a limited number of commodities eastbound, primarily certain chemicals and foods. Lumber, one of the most important contributors to eastbound tonnage, was not at issue in the proceedings. The list of commodities on which westbound rates were raised is much longer, and includes many foods, chemicals, building materials, ceramics, and metal articles. The commission is continuing its investigation of transcontinental rates.

4. Over a long period of time, the commission had had under investigation class rates throughout the United States, except in Mountain-Pacific Territory. Its decision in the Class Rate Investigation of 1939 was handed down in the spring of 1945.<sup>19</sup> In that case, the commission ordered, as a long-run adjustment, that a uniform classification and a uniform scale of class rates, derived as a function of distance, and without regional variation, be applied to all Territories except Mountain-Pacific. Lower classes were to bear uniform percentage relationships to first class. In general, the rates in the prescribed scale are higher than the rates previously effective for equivalent distances in Official Territory, but lower than the rates effective elsewhere.<sup>20</sup>

The commission recognized, however, that such a large-scale, long-run adjustment could not be made effective for some time, and hence an interim adjustment was prescribed. Intraterritorial class rates in Official Territory were ordered to be increased 10 per cent, and other intraterritorial rates (except in Mountain-Pacific Territory) and all interterritorial rates (except to or from

<sup>16</sup> On canned goods, for example, the prewar rate was 88¢ from California to destinations in the Middle West and South. In *Ex Parte* 162 a 25% increase was requested, which would have brought the rate to \$1.10. But the commission permitted only a 20% increase, subject to a maximum of 13¢, so that on Jan. 1, 1947, the rate became \$1.01. In *Ex Parte* 164, rail carriers again sought the \$1.10 rate.

<sup>17</sup> Circular letter from W. H. Dana, chairman, Trans-Continental Freight Bureau, April 22, 1947.

<sup>18</sup> Circular letter from Harry S. Brown, chairman, Intercoastal Steamship Freight Association, April 5, 1947, p. 2.

<sup>19</sup> Docket 28300, 262 ICC 447. Mountain Pacific Territory includes parts or all of each of the 11 western states.

<sup>20</sup> The rate scales now effective are not uniform in either initial amount or rate of progression with distance. Hence there is an exception to the generality that the new scale prescribed for eventual application is higher than previous Official scales, and lower than others. For distances under 80 miles, the new scale is also higher than the scale applied in Western Trunk Line Zone I, which is roughly upper Michigan, Wisconsin, Iowa, and northern Missouri.

Mountain-Pacific Territory) were to be reduced 10 per cent. The interim rates were intended to be made effective January 1, 1946, but their effectiveness was enjoined pending court test. On May 12, 1947, the Supreme Court upheld the commission,<sup>21</sup> and the injunction was vacated. As we have already seen, however, the commission had achieved an analogous result in *Ex Parte* 162 while Docket 28300 was in litigation.

In its second supplemental report to Docket 28300,<sup>22</sup> the commission suspended the class rate increases authorized in *Ex Parte* 162, ordered the carriers to proceed with the interim requirements of Docket 28300, that is to raise intraterritorial rates within Official Territory 10 per cent, and to reduce all other rates, both inter- and intraterritorial,<sup>23</sup> by 10 per cent. Rates so established were then to be increased by a uniform 22½ per cent. This meant that upward and downward adjustments from the 1938 level, as originally contemplated in Docket 28300, were made effective and then those rates were to be increased by a uniform 22½ per cent.

5. Early in July 1947, the railroads petitioned the commission for still another increase in rates. In *Ex Parte* 166, the carriers proposed that intraterritorial rates within Official Territory and interterritorial rates to and from Official Territory be increased 25 per cent, and that all other rates, inter- or intraterritorial, be increased 15 per cent, except that increases were to be limited to stated maxima in cents or flat amounts in cents for certain commodities.<sup>24</sup> The general pattern was thus similar to that of *Ex Parte* 148 and 162. Before the commission had taken any action on the July petition in *Ex Parte* 166, however, the carriers, early in September, filed an amended petition proposing a still greater upward revision.<sup>25</sup> Instead of a 25 per cent increase in rates to, from and within Official Territory, the supplementary petition proposed an increase of 38 per cent. For inter- and intraterritorial rates elsewhere, the proposed increase amounted to 28 per cent instead of 15 per cent. Again, limits were proposed on the increases for certain commodities, but to larger amounts than in the original request.

The commission has delivered four decisions under *Ex Parte* 166. The first of these was accorded the carriers on October 6, 1947, and granted a 10 per cent increase on rates generally, except that iron, ore, coal, coke and lignite were raised 10¢ a ton.

The second increase was announced December 30, 1947.<sup>26</sup> The decision permitted a general increase of 20 per cent from the level of rates effective prior to the earlier increase of October 1947. Important minerals<sup>27</sup> again received flat

<sup>21</sup> *State of New York v. U. S.*, 64 S. Ct. 1207.

<sup>22</sup> 268 ICC 577.

<sup>23</sup> Except, of course, rates to, from, and within Mountain-Pacific Territory.

<sup>24</sup> *Traffic World*, July 12, 1947, pp. 105-108.

<sup>25</sup> *New York Journal of Commerce*, Sept. 6, 1947, p. 1.

<sup>26</sup> *Traffic World*, Jan. 3, 1948, p. 9.

<sup>27</sup> Coal, coke, and lignite; and iron, aluminum, copper, lead and zinc ores and concentrates.

increases of 20¢ per ton. The commission estimated that the average increase amounted to 17½ per cent.

The third decision was issued in April 1948.<sup>28</sup> Most rates were raised again, but the amounts of increases showed greater variations than in the preceding cases. Both geographical and commodity discrimination appeared. Intra-territorial rates within the East were raised to 30 per cent above the level in effect prior to the first *Ex Parte* 166 decision. Rates within the West, excluding Western Trunk Line Zone I, were not increased above the level granted in December 1947, which was 20 per cent above the level prior to the first decision in the case. Other rates were increased 25 per cent above the level prevailing before October 1947. A considerable number of commodities received special treatment. Coal and coke rates were, as usual, increased by flat amounts positively related to the level of the rate. Smaller increases were permitted on other commodities, including many iron and steel articles. Increases were sometimes set forth in the form of percentage changes smaller than those accorded generally, and sometimes in the form of maximum increases in cents. A few commodities may have received reduced rates.

The fourth and final decision in *Ex Parte* 166 was handed down on July 29, 1948.<sup>29</sup> It made permanent, with a few exceptions, the rates authorized in April. Upward and downward adjustments were made, however, on many commodities. The only change affecting a whole geographical area involved Western Trunk Line Zone I. In April, rates to, from, and within that zone were raised to a level 25 per cent above that of the previous October. In the final decision, rates between Western Trunk Line Zone I and the balance of Western Trunk Line were established on a basis of 22½ per cent above the level of the base period while for other rates to, from, and within Zone I, the April decision stood unchanged.

6. Another pending case of potentially general significance is the claim by the state of Georgia that it is discriminated against by the freight-rate structure imposed by the northeastern railroads. This is a broad case, involving all inter-territorial rates. It is unusual, moreover, in that the Supreme Court has accepted original jurisdiction,<sup>30</sup> so that the ordinary procedure before the Interstate Commerce Commission has been by-passed. The case is now being heard by a special master,<sup>31</sup> and no fruitful analysis is presently possible.

## II

An examination of these cases which we have just described indicates that they present a number of problems. None of these problems is in any way new or unique. All of them have existed for years and the commission has wrestled with many of them in the past. That they continue to emerge makes it the more important that they be recognized. Among these problems are: (1)

<sup>28</sup> Interstate Commerce Commission, *Ex Parte* 166, April 13, 1948 (mimeographed).

<sup>29</sup> *Traffic World*, July 31, 1948, insert pages.

<sup>30</sup> *State of Georgia v. Pennsylvania Railroad*, 65 S. Ct. 110.

<sup>31</sup> 67 S. Ct. 1313.

those arising from the differential treatment of geographical areas, and (2) those arising from the differential treatment of commodities.

1. Differential treatment of geographical areas leads to difficulties, especially where areas receiving diverse treatment adjoin. Docket 28300 provides an example of such problems. We shall consider it first in the abstract, separated from the general upward movement of rates which has been taking place concurrently. The immediate practical importance of the class rate case is limited, however, since some 90 per cent of railroad traffic moves on commodity, rather than class, rating.

Let us suppose that there had been in the past class rate scales directly related to distance<sup>22</sup> between Official Territory and adjacent territories. The effect then of an increase in Official intraterritorial rates and a decrease in interterritorial rates would be to create, around the borders of Official Territory, and on routes proceeding into other territories, a set of stations within Official Territory to which the rates would be higher than the rates to the somewhat more distant stations in the next adjacent territory. This is illustrated in Figure 1. Here the rate in dollars is measured on the ordinate and distance from the origin *O* on the abscissa. Let us assume *O* is an origin in Official Territory, *A* a station in Official Territory, *B* a station on the border of Official Territory and another territory, and *C* and *D* stations in the other territory. If we assume that the rate along this route progressed smoothly with distance, except for the slight taper which is usually prescribed, then we can suppose that the rate before the changes ordered in Docket 28300 was \$1 for haul *OA*, \$1.90 for haul *OB*, \$2.70 for haul *OC*, and \$3.40 for haul *OD*. Line *OX* portrays the progression of that rate. With the 10 per cent increase, the rate *OA* will be \$1.10, and the rate *OB* will be \$2.09. The line *OW* represents that progression. But the rate from *O* to all points beyond *B* will have been decreased 10 per cent instead of increased by that amount. The line *YZ* will thus represent the new rate to stations beyond *B* to *D*. This makes for an awkward situation at *B*, and one which, unless it received special sanction, would constitute a violation of the 4th Section of the Interstate Commerce Act, since the rate to points just beyond *B*, such as *M*, will be less than the rate to *B*. The problem can be solved by blanketing, either by carrying the *OB* rate of \$2.09 on until it intersects line *YZ*, or by carrying the *OM* rate back until it intersects line *OW*.

If the movement is in the opposite direction, with an origin in another territory and the destination in Official Territory, the problem will not exist, since all rates will have been treated alike.

Figure 2 shows a somewhat different situation, such as one which would apply for movements into the unaffected Mountain-Pacific Territory. Here rates from *O* as far as *B* would be reduced 10 per cent, but rates beyond *B* would be unchanged, so that there would be a sharp rise in the rate just beyond *B*.

<sup>22</sup> Distance scales previously prescribed by the commission for class rate construction, together with the "key city" technique for making class rates on the longer routes, make this a not unrealistic assumption. Nevertheless, the reader should guard against the fallacious assumption that transportation rates are ordinarily related to distance in any formal or uniform manner.

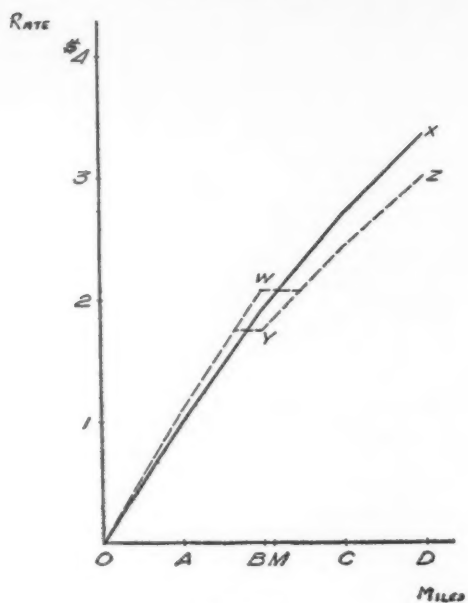


FIGURE 1

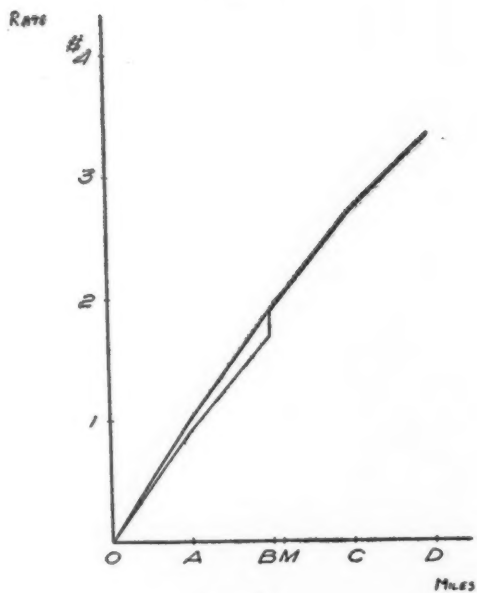


FIGURE 2



In Mountain-Pacific Territory, at least, even progressions with distance are the exceptions rather than the rule, so cases such as we have just cited are probably not very likely to arise.

In the class rate case the commission made no special provision for the handling of those problems which arise around the borders of rate-making territories.

A general upward revision which varies by geographical region will lead to problems similar to those just discussed. The 1946 version of *Ex Parte* 148, *Ex Parte* 162, and *Ex Parte* 166 have all had this feature; their importance, moreover, is enhanced through the inclusion of commodity, as well as class, traffic. Thus, on traffic moving outward from Official Territory origins, the increase above the original level would be greater for that portion of the movement within Official Territory than for the interterritorial movement. At the borders of the territory, then, a situation somewhat similar to that portrayed in Figure 1 will arise, requiring, at the border, a decrease in the rate with an increase in distance. If the 4th Section is to be observed, blanketing will be necessary. As in Figure 1, there will be two choices of blanketing method. A high rate method may be used whereby the higher intraterritorial rate applying to the most distant station within Official Territory may be carried onward unchanged with distance until it becomes equal to the interterritorial rate, which has been progressing less rapidly with distance than the intraterritorial rate. The other, or low rate blanketing method, requires that the interterritorial rate to the nearest station in the adjacent territory be applied as a maximum around the fringes of Official Territory. In both cases the blanket lies along the territorial border, but in the first case the blanket lies just beyond the higher rated territory, and in the second case the blanket lies just within the higher rated territory. The commission has authorized the use of the first of these methods in those cases which have already been decided.<sup>33</sup>

Figure 3 represents the typical outward case in which it is assumed that the distance from station *O* to station *A* is within Official Territory, and that the distance from station *A* to station *C* is in another territory. Line *XY* represents the progression of the original rate from the origin *O* to all stations along the route up to and including *C*. Line *TU* represents that portion of *XY* between *O* and *A* increased 25 per cent. Line *VW* represents that portion of *XY* showing the rate from *O* to stations beyond *A* up to and including *C*, increased 22½ per cent. Thus from stations between *A* and *B* the rate will be less than the rate from *O* to *A* (*OZ*). Following the commission's formula, then, rate *OZ* will be applied to all stations between *A* and *B*, *B* being the station beyond *A* at which 122½ per cent of the original rate from *O* is equal to 125 per cent of the original rate from *O* to *A*.

Figure 4 portrays the obverse of the situation just described. Here we assume a movement in the reverse direction, to *O* in Official Territory from *C* in another territory. The line *XY* represents the progression of the original rate from the origin *C* to all stations along the route up to and including *O*. Line *TU* represents that portion of *XY* between *C* and *A* increased 20 per cent. Line *VW* rep-

<sup>33</sup> 264 ICC 695, 744; 266 ICC 537, 617-618.



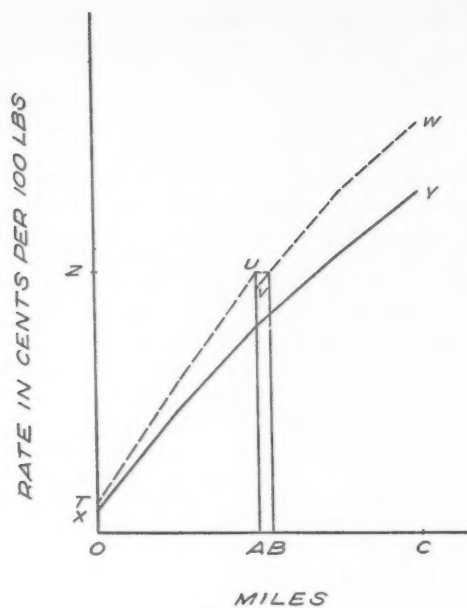


FIGURE 3

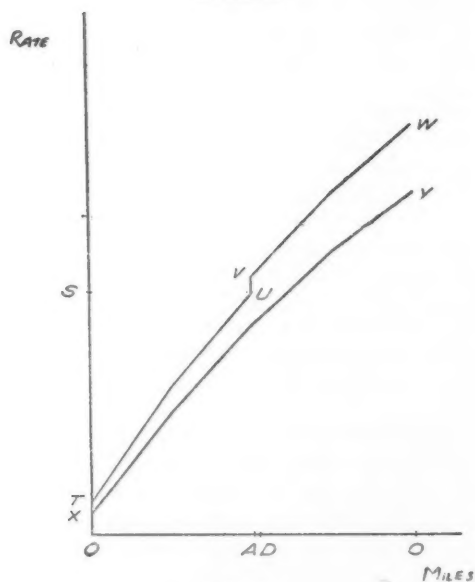


FIGURE 4

resents that portion of  $XY$  beyond  $A$  to  $O$  increased  $22\frac{1}{2}$  per cent. We assume  $D$  to be the first station beyond  $A$  toward  $O$ . The problem here becomes one of making a rate from  $C$  to  $D$  which will not violate the aggregate-of-intermediates clause of the 4th Section. This clause requires that the rate from  $C$  to  $D$  not exceed the sum of the rates from  $C$  to  $A$  and from  $A$  to  $D$ . Railroad rates usually include a substantial charge even at the shortest distance, which is intended to be a terminal charge, and to which is added a line haul charge based on the distance traversed. Thus the local rate from  $A$  to  $D$  will be at a high average level per mile. But the greater the distance from  $C$  to  $A$ , the greater will be the basic rate which will receive an additional increment of  $2\frac{1}{2}$  per cent beyond  $A$ . Hence, the use of through or combination rates depends on two factors. One is the relative distance traversed in each of the two territories, and the other is the amount of the additional terminal charge to be collected if combination rates are used. The greater the distance from  $C$  to  $A$ , the greater the likelihood that the increment to the through rate from  $C$  between  $A$  and  $D$ , represented by  $UV$  in Figure 4, will exceed the local rate from  $A$  to  $D$ . If this occurs, if it is to conform to the law, then the rate from  $C$  to  $D$  must be made by a combination on  $A$ . It is even possible that the rate from  $C$  to all stations between  $A$  and  $O$  will be made in this fashion, but since the mileage charge is typically greater for short distances than for long, this will not necessarily occur. It is to be remembered, of course, that local rates beyond  $A$  will have been increased 25 per cent, so that the distance beyond  $A$  does not need to be as large as the distance from  $C$  to  $A$  in order for it to become possible to use the through rate. But discussions such as this apply only to situations in which the rate has initially been closely related to distance. For class rates elsewhere than in Mountain-Pacific Territory the rate structure does approximate this situation. For some commodity rates the commission has prescribed fixed relationships to first class. These are the so-called column rates, and such commodity rates will be a function of distance to the same extent as are the class rates. But, as has been shown elsewhere, many commodity rates are related to distance in a highly irregular and random fashion,<sup>54</sup> and it is probably true that most commodity rate structures are replete with blankets, combinations, and, not infrequently, 4th Section departures. Differential treatment of regions may then produce considerable variations in commodity rate structures, unless the carriers decide to retain the original pattern at a sacrifice of some of the rate increase.

For example, wine in containers from California took a rate of 99¢ per 100 pounds to all destinations east of Arizona and Utah under the adjustment in effect between 1938 and 1946.<sup>55</sup> Under the *Ex Parte* 162 adjustment, the rate from California on wine, since it is a manufactured article, would be increased 20 per cent to all destinations except Official Territory, and  $22\frac{1}{2}$  per cent to Official Territory. Thus the old transcontinental blanket of 99¢, which covered the greater part of the United States, would be broken into two groups: one of \$1.20 outside Official Territory, and the other of \$1.22 in Official Territory. The

<sup>54</sup> Daggett and Carter, *op. cit.*, *passim*.

<sup>55</sup> Except for the 13 months in 1942-43 when the *Ex Parte* 148 increases were operative. Such increases changed the level but not the extent of the blanket.

blanket would be preserved only if the carriers were willing to forego the additional 2¢ revenue on traffic moving into Official Territory.

A different result would follow, however, on outward movements from Official Territory, if the rate on a commodity from an origin in Official Territory was blanketed to destinations both within and beyond that territory.<sup>36</sup> In that example, the blanketed rate would be increased 25 per cent throughout, under the rule that rates within Official Territory apply as minima on interterritorial traffic, and hence the blanket would remain intact.

It is even possible that differential regional treatment may create a blanket where none existed before. Suppose the rate from an origin in Official Territory to destinations within but on the border of that territory was \$1.02. An increase of 25 per cent applied to the \$1.00 rate, and an increase of 22½ per cent applied to the \$1.02 rate would both yield rates of \$1.25, so that a blanket would be created embracing stations on either side of the border.

The limitation of the increase on certain commodities to a maximum number of cents serves to alter the pattern of progression of the rates on those commodities. The maximum will, of course, come into play only on the longer hauls, and will be of particular importance to transcontinental traffic. On some of the major commodities moving eastward from California, it appears that the maximum increase is reached somewhere in the intermountain area, and before entering transcontinental territory.<sup>37</sup>

While most railroad rates show a decline in the rate of increase with distance as the total distance increases, this form of taper is present to an unusual degree in transcontinental rates. Figure 5 presents a generalized version of an eastbound transcontinental commodity rate. If this rate is increased 20 per cent subject to a maximum of 13¢, the maximum will become effective when the initial rate reaches 65¢, or the new rate reaches 78¢. In Figure 5 this occurs only 300 miles from the origin. Thus the already marked tendency for transcontinental rates to rise rapidly in their initial stages will be accentuated.

The interim decision in *Ex Parte* 164 will have two main results on the rate structure of the commodities involved. In the first place, the elimination of the maximum increase in cents does away with the tendency toward increasing taper, which we have noted was produced by the decision in *Ex Parte* 162. In the second place, for many commodities, the increase in rates on transcontinental traffic is greater than on traffic elsewhere. This increases the possibility that through rates will exceed the aggregate of intermediates, and hence that combination rates will become applicable in the absence of authority to depart from the provisions of the 4th Section.<sup>38</sup> Such combinations are probably not very likely

<sup>36</sup> The author is unable to state whether such rates actually exist.

<sup>37</sup> Technically, transcontinental territory is that area to which rates from the Pacific Coast are published by the Transcontinental Freight Bureau. Roughly, its western border is marked by Cheyenne, Denver, Pueblo, Trinidad, Tucumcari, Clovis, and El Paso. Cf. Daggett and Carter, *op. cit.*, pp. 22-23.

<sup>38</sup> Fourth Section Order No. 15650 permits such departures until January 1, 1948, presumably merely as technical aid to tariff publication.

to emerge to and from the major cities of the Pacific Coast, since for most commodities the through rates are well below the rate which any combination would yield, but to and from the eastern edges of the Pacific Coast terminal region, such as western New Mexico and western Utah, they become increasingly possible.

In so far as distance relationships are concerned, then, the cases appear to extend a line of reasoning which the commission has been fairly consistently following for a number of years. Since the end of the first world war the com-

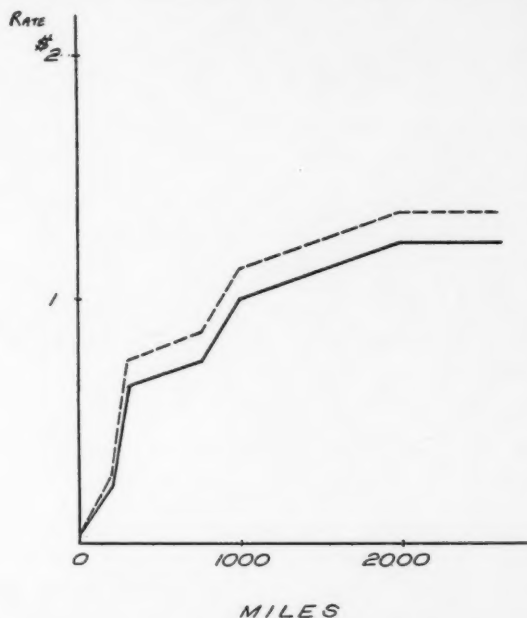


FIGURE 5

mission has been consistent in prescribing, for one territory after another, class rate scales in which the first class rate increases regularly with distance, although at a decreasing rate, and in which the lower classes are related to first class by uniform percentages. Thus, within each territory, the idea that two hauls of equal length of the same commodity should bear the same class rate had become generally accepted. The effect of the decision in Docket 28300 is merely to extend that principle to the whole of the United States east of the Rockies. This uniform pricing technique follows from the introduction of statistical evidence which the commission interprets as indicating that there are no significant differences in the average total unit cost of transportation in the various territories, and hence that uniform pricing is justified. Whatever may be the merits

of the cost data, which are averages for many carriers throughout large geographical areas, it should be noted that this method implies pricing without reference to regional differences in the elasticity of demand for transportation, at least in so far as class traffic is concerned.<sup>39</sup>

2. The results of granting varying rates of increase to different commodities is much less easy to treat than the distance relationship. This is because there are formal rules, in the form of the 4th Section, prescribing certain limits in the relationship between the rates for any one commodity over the segments of any one route, while there are no such rules describing the relationship between the rates on different commodities.<sup>40</sup> There is almost no uniformity, then, in the way in which rates on various commodities are related to one another. The nonuniform treatment which various commodities received in *Ex Parte* 148 and 162 enhances the technical difficulties of tariff publication and rate presentation, but can scarcely add to the already almost complete anarchy in the relationship.

In general, rates on raw materials were advanced by smaller percentages than rates on products which have received more processing. The reasoning behind such action is far from clear. It implies that the demand for the transport of raw materials is more elastic than for manufactures. Since it would appear that the location of the production of raw materials is more or less fixed by geography and geology, while the location of manufacturing is at least potentially variable by human agency, one could expect the reverse, namely, that the demand for the transport of raw materials would be less elastic than the demand for the transport of manufactures.

### III

In sum, like other prices, transportation rates have been increasing, and also like other prices, the increase has not been uniform. But certain patterns do stand out. Regionally, the East has consistently received greater increases than the rest of the country. Restored *Ex Parte* 148 and *Ex Parte* 162 both raised the East 5 per cent more than elsewhere for class traffic and many commodities. The Supreme Court decision upholding the commission's order in Docket 28300 increased the differential on class traffic, and the case inaugurated in the summer of 1947 has had the effect of still further increasing the differential on nearly all types of traffic. Table I presents indices of rate change by regions since 1938.

<sup>39</sup> On class traffic, variations in the elasticity of demand for the transport of different commodities continue, of course, to be taken into account by the use of the classification. The more common commodity rates are tailor-made to individual movements, and hence permit pricing according to both geographical and commodity elasticity of demand. Actual commodity rates are probably reached through a combination of oligopolistic price leadership and bilateral monopoly bargaining.

<sup>40</sup> Textbooks often present lists of factors to be considered in classification, such as value per 100 pounds, cubic feet per 100 pounds, liability to loss and damage, volume of movement, and similar items, but there is no suggestion of weights to be attached to any of these factors, and their greatest use may be to provide rationalization for an essentially subjective decision.

The Interstate Commerce Commission estimates that by the end of August 1948, freight rates averaged 44.2 per cent above the level of June 1946.<sup>41</sup> This

TABLE I  
*Indices of General Rate Levels*

1938 = 100

Intraterritorial

	CLASS RATES				COMMODITY RATES <sup>a</sup>		
	East	South & WTL Zone I	Mountain Pacific	SW & WTL Zone II & III	East	South & WTL Zone I	West except WTL Zone I
Ex Parte 123—1938	100	100	100	100	100	100	100
Ex Parte 148—1942	106	106	106	106	106	106	106
Ex Parte 148—1943	100	100	100	100	100	100	100
Ex Parte 148—1946	111	106	106	106	111	106	106
Ex Parte 162—1947	125	120	120	120	125	120	120
Docket 28300—1947	135	110	123	110	125	120	120
Ex Parte 166—Oct. 1947	149	121	135	121	138	132	132
Ex Parte 166—Dec. 1947	162	132	148	132	150	144	144
Ex Parte 166—April 1948	176	138	148	132	163	150	144
Ex Parte 166—July 1948	176	138	148	132	163	150	144

Interterritorial

	CLASS RATES				COMMODITY RATES <sup>a</sup>	
	Between East and		Between South, WTL & SW		To or from East	Between Other Territories
	Mtn. Pac.	Rest <sup>b</sup>	Mtn. Pac.	South WTL & SW		
Ex Parte 123—1938	100	100	100	100	100	100
Ex Parte 148—1942	106	106	106	106	106	106
Ex Parte 148—1943	100	100	100	100	100	100
Ex Parte 148—1946	106	106	106	106	106	106
Ex Parte 162—1947	123	123	120	120	123	120
Docket 28300—1947	123	110	123	110	123	120
Ex Parte 166—Oct. 1947	135	121	135	121	135	132
Ex Parte 166—Dec. 1947	148	132	148	132	148	144
Ex Parte 166—April 1948	154	138	154	138	154	150
Ex Parte 166—July 1948	154	138	154	138 <sup>c</sup>	154	150 <sup>d</sup>

<sup>a</sup> Numerous exceptions, especially on raw materials.

<sup>b</sup> Territories other than Eastern and Mountain Pacific.

<sup>c</sup> Between WTL Zone I and other zones of WTL, index number 135.

<sup>d</sup> Between WTL Zone I and other zones of WTL, index number 147.

may be contrasted with a 50 per cent rise in the Bureau of Labor Statistics wholesale price index in the same time period.

<sup>41</sup> Interstate Commerce Commission, *Monthly Comment on Transportation Statistics*, Aug. 13, 1948, p. 2.

It could be asked, assuming carriers are not to be allowed to maximize their revenue, whether rate increases should be applied uniformly throughout an entire region, without regard to the position of individual carriers. There will be some carriers in each region whose earnings will be handsome even without increased revenues. And always there is the question whether higher rates will always produce higher revenues. The commission must believe this to be the case, since it has authorized upward rate adjustments in depression and boom. Rates were advanced in 1931,<sup>42</sup> and a request for a rate reduction in line with the fall of other prices in 1933 was rejected.<sup>43</sup> Further increases were granted in 1935-7,<sup>44</sup> and again in *Ex Parte* 123,<sup>45</sup> as a result of the 1937 downturn. While it may well be true that the demand for transportation in general is inelastic within the range of present transport prices, it would be a surprising coincidence if the demand for the transportation of all commodities between all stations was inelastic to the same measure. But such a theory is implicit in the granting of rate increases which are uniform both by commodities and by areas.

To summarize: in addition to the technical problems around territorial borders which varying rate adjustments, coupled with the requirements of the 4th Section, involve, certain other general problems arise. First, there is the propriety of making rates solely a function of distance. A classification permits the rate to be adjusted according to the elasticity of demand for transport of that commodity, but there is no reason to suppose that that elasticity will be uniform throughout the United States. Second, because the sources of raw materials are largely fixed by nature, while it is technically possible to carry on manufacturing almost everywhere, one would expect the demand for transport of the products of agriculture and mines to be less elastic than the demand for transport of other products, and hence additional revenue might better be obtained from raw materials.

These are at least a few of the problems raised by a review of recent freight-rate decisions. They are not new problems, but they have received little or no attention. It appears that some attention to them on the part of the regulatory authorities would be desirable.

<sup>42</sup> I. L. Sharfman, *The Interstate Commerce Commission*, Part III-B, p. 184.

<sup>43</sup> *Ibid.*, pp. 207-209.

<sup>44</sup> Stuart Daggett, *Principles of Inland Transportation*, p. 310, n. 4.

<sup>45</sup> 226 ICC 41 (1938).



## THE REGIONAL SIGNIFICANCE OF THE INTEGRATION MOVEMENT IN THE SOUTHERN TEXTILE INDUSTRY

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The war and postwar years have markedly advanced the transformation of the southern textile industry from a highly decentralized industry with small, individually owned plants into one of integrated industrial giants. The movement in this direction was discernible for two decades prior to 1940. But the high premium placed on the sale of fabrics and the unprecedented profitability of yarn and fabric manufacture during the last few years have accelerated the tendency. The industry now more nearly resembles the other large scale American industries than it has at any previous period.

While some sections of the industry have not been greatly affected, the proportion of the industry now embraced by the large integrated organizations is so considerable as to make them the characteristic form of industrial organization. The previous practice of judging the industry in terms of the gray goods market and the destiny of the gray mill, which relied on a commission house for its selling and merchandising, is no longer realistic. The economic behavior of these large, vertically integrated enterprises is the major determinant of the industry's well-being.

"Stabilized competition," i.e., that form of industrial competition in which the parties respect each other's prices, where price patterns are set by dominant producers, and where competition through nonprice factors is predominant, is increasingly becoming evident in the major sectors of the textile industry. The levels of productive operations are now more quickly adjusted to variations in the volume of sales than ever before. The growth of industrial giants has also coincided with fewer fibre distinctions among companies. Most large interests are producing yarns and fabrics of varied fibres. The textile industry is no longer properly classified as a classic example of competitive industry.

### I

The present trend toward concentration of mill ownership in the southern textile industry gains significance when viewed against the background of the growth of these mills. They generally originated as individual enterprises.

The manner of growth of the industry during the early period from 1880-1900 determined the pattern of mill ownership. These "southern cotton mills were conceived and brought into existence by Southerners. The impulse was furnished almost exclusively within the South against much discouragement from the selfish interests in the North and capital was applied by the South to the limit of ability."<sup>1</sup> As local investors primarily provided the cash, the combined resources of many persons were required to build one mill.

<sup>1</sup> Broadus Mitchell, *The Rise of Cotton Mills in the South*, p. 102.

The principal outside aid came from textile machinery manufacturers and commission houses. The machinery manufacturers fostered the construction of mills and their expansion by accepting stock in their enterprises.<sup>2</sup> But they left no significant mark on the form of ownership. They preferred to dispose of their stockholdings at a discount rather than retain long-term holdings. Their stock was widely sold in the South and provided the base for the active market for stocks.<sup>3</sup>

The commission house, on the other hand, began a long history of intimate association with the southern textile industry. Its role must be appreciated because it remained a dominant factor in the industry so long as the mills were individually and locally owned. The commission house appeared in response to the inadequacy of local capital and the lack of merchandising experience. Commission houses helped finance mill construction and received in exchange the agency for selling the mill's products. But financial dependence did not end there, as most mills lacked adequate working capital. This they secured from the selling house in the form of a guarantee of credits, collection agent, discount of accounts receivable and advances on merchandise owned by mills.<sup>4</sup>

The second function performed by the commission houses was that of selling agent. Located in the market, they usually sold the goods "on consignment." They provided contacts with buyers. They also in time advised the mills on the types of goods to produce, the amounts to produce, and the times at which they should be produced.

The individual mill remained helpless before these commission houses. The mill management was unable to establish itself as an operating manufacturing organization comparable to those prevalent in other industries where the enterprise produces, finances its operations, and sells its product. This dependence was reinforced by many abuses which crept into the relationship between the mill and the commission house, enriching the house and impoverishing the mill. Commission houses were known to make sales at unsatisfactory prices to maintain their commissions though this meant financial embarrassment to the mill. It has, moreover, been charged by mill owners that they used their mill accounts for their own private speculative endeavors.

Many mills were driven into financial difficulties by the commission houses. Where mill loans could not "be liquidated by current collections and sales of goods in stock" the mill would be "taken over by the merchant. Where this occurs the mill is usually continued in operation, but with no obligation to stockholders and with no purpose of providing a profit from its operations. The commission merchant is satisfied with his usual commission on sales provided he breaks even in the operating end of the arrangement."<sup>5</sup> The relationship

<sup>2</sup> J. T. Lincoln, "The Cotton Textile Machinery Industry," *Harvard Business Review*, July 1933, p. 96.

<sup>3</sup> Mitchell, *op. cit.*, p. 271.

<sup>4</sup> Reavis Cox, *The Marketing of Textiles*, pp. 318-9.

<sup>5</sup> C. T. Murchison, *King Cotton is Sick*, p. 65.

was recently described in the following words: "The (commission) house is not run for the mill but the mill is run for the house."<sup>6</sup>

As the wealth and importance of these selling agents grew a number of them became dominant within the industry.<sup>7</sup> While the manufacturing operations continued on a decentralized and highly competitive basis, the selling function was highly concentrated in the hands of a small group. The price of goods fluctuated widely, but the commission house's fee remained fixed. Whereas the mill might find its profits erased by its operating and financial policies, it was helpless to alter the situation since the commission house insisted upon a high volume of production to insure sales which would be "moved" at their regular commission.<sup>8</sup>

The separation of the two functions of cotton manufacturing and selling was reinforced by the mill owner's interest in raw cotton speculation. Many owners spent more time speculating on the purchase and sale of cotton than on the operation of their mill. The absence of an effective means of protecting the mill man from fluctuations in the price of cotton and variations in mill margins drove many mill men to this course. Many made or lost more money in this speculative activity than in mill operation.

This interest in cotton speculation diverted the mill man from the manufacturing business. It deterred him from following the textile market, style trends, changes in cloth demands, and from solving the problems of adjustment to them. His behavior created the characteristic two-year business cycle with its periodic financial embarrassment for the mills. Dependence on the commission houses thereby increased. This form of organization made the cotton textile manufacturing industry "sick" during the twenties while the rest of American industry prospered.

## II

As these organizational defects in the industry became apparent, individual mills sought to surmount them. The continued prosperity of many southern mills through the greater part of their first four decades helped them to free themselves from dependence on the commission house.<sup>9</sup>

One effort was to enlarge the size of the mills. Small mills were enlarged into constantly bigger ones. New mills tended to be larger. The average size of mills continued to grow, particularly in Georgia and South Carolina.

But this step was not sufficient. A more significant move was the horizontal

<sup>6</sup> *American Wool and Cotton Reporter*, June 24, 1948, p. 47.

<sup>7</sup> In the cotton field, four commission houses—J. P. Stevens Co., Cone Export and Commission Co., Reeves Bros. Inc., and Riegel Textile Co.—received 26 per cent of the total value of the contracts for Army Quartermaster Corps in 1944. U. S. Senate Special Committee to Study Problems of American Small Business, 79th Cong., 2nd Sess., Doc. 206, *Economic Concentration and World War II*, p. 247.

<sup>8</sup> Mitchell, *op. cit.*, pp. 251-2; Murchison, *op. cit.*, pp. 49-70.

<sup>9</sup> H. J. Blackford, "Southern Cotton Mills as Investment," *Manufacturer's Record* Oct. 28, 1926, pp. 113-4.

integration of mills. Local people bought up the stocks released by the textile machinery companies and by other local interests. Many men acquired wide-flung interests throughout the southern textile industry. But the mills did not alter their basic relation to the commission house.

A third change was the increase in northern ownership. Many mills had been partially financed through northern commission houses. Some individual mills were built entirely with northern capital. But the number was not impressive until the turn of the century. Then a number of northern mills especially those producing coarser goods moved South, particularly to Georgia and Alabama.<sup>10</sup> Northern capital also gained control of other southern mills.

The extent of this penetration was most completely appraised in 1922 by the National Association of Cotton Manufacturers. A survey of 90 per cent of the southern cotton spindlage indicated that 83.8 per cent was owned and controlled by southern interests. Some 10.8 per cent was controlled by northern capital; 3.4 per cent was actually owned by New England mills, and the rest, 2.0 per cent was controlled by western capital.<sup>11</sup>

A new movement of northern mills and capital to the South came after the summer of 1923. It continued throughout the twenties and to a lesser extent into the thirties. The number of actual mill transfers was small. But regional competition led to the scrapping of approximately 2.5 million northern spindles. The *Textile World* lists 51 mills which moved from the North to the South from 1921-28 and estimates that during the period "upwards of 1,350,000 spindles with complementary machinery had moved from North to South."<sup>12</sup> Other northern interests which did not move equipment bought out southern mills or invested in them.

Despite this huge movement, the proportion of northern ownership appears not to have been seriously affected as the expansion of southern interests was in itself sufficient to offset the extension of northern influence. A 1931 survey shows that northern mills and commission houses were reported to own 14.6 per cent of the spindlage and 11.8 per cent of the loomage. The proportion of northern ownership in Alabama was significantly higher, comprising 36 per cent of the spindles and 37 per cent of the looms and in the silk mills of North Carolina the proportion was 24 and 46 per cent respectively.<sup>13</sup>

The drive toward integration and infiltration of northern ownership prepared the industry for the merger movement, which assumed impressive proportions during the twenties. S. J. Kennedy enumerates for the period from 1919-1935 43 mergers and consolidations, i.e., changes in corporate organizations which involve "the setting up of a central control for a number of distinct operating

<sup>10</sup> V. S. Clark, *History of Manufactures in the United States*, Vol. 3, p. 134.

<sup>11</sup> Massachusetts Department of Labor and Industries, *Report of a Special Investigation, Conditions in the Textile Industry in Massachusetts and the Southern States*, Aug. 1923, pp. 17-8.

<sup>12</sup> *Textile World*, Feb. 5, 1927, pp. 808, 921; Feb. 4, 1928, p. 670; Feb. 2, 1929, pp. 733, 809.

<sup>13</sup> Ben Lemert, *The Cotton Textile Industry in the Southern Appalachian Piedmont*, pp. 153-156.

units previously independent."<sup>14</sup> Of this number, 27 consisted solely of southern plants and eight consisted of both northern and southern mills. The other eight were composed solely of northern mills. Over 125 southern mills were affected by these mergers.

Many of the mergers integrated both the manufacturing and sales organizations. During the twenties and thirties, groups of mills controlled by single interests set up their own selling organizations. This trend was particularly strong in the case of manufacturers of mill-finished consumer goods such as sheets, towels, and bedspreads, which could be branded.

Several important selling organizations reversed this process by buying mills to support their sales. The most significant merger centering about converting and sales organizations was United Merchants and Manufacturers, Inc. Another group of mills sought to hurdle deficiencies in industrial structure by creating their own cooperative selling organization. Southeastern Cottons, Inc., is a notable example.

The ownership pattern was also affected by the acquisition of mills by industrial consumers of textiles. The most striking case is that of rubber tire manufacturers. Before the war more than 75 per cent of the tire fabric output was controlled by tire manufacturers. The same trend toward the purchase of textile mills was evident among surgical gauze, bag, coated fabrics, mop, and shoe lining manufacturers.<sup>15</sup>

Large sectors of the industry were liberated, particularly during the twenties and thirties, from the "sickness" which dominated the industry. While the general run of mills were recurrently affected by the machinations of the selling houses and the depressing influence of overproduction in specific staple lines, integrated organizations were in varying degrees free of these threats. Their earnings tended to be maintained at relatively higher levels than prevailed in most gray goods and yarn mills.

Some companies became dominant in special fields by monopolistic practices. The first divisions in which efforts were made at monopolistic control were duck and thread. While the former trust has disintegrated, concentration continues in the manufacture and sale of thread as there are now three dominant companies, despite the 1914 Supreme Court order disbanding the integration of financial interests arranged in 1899. The trend toward restricted competition was fostered in many areas by the needs for specialized equipment, branding, and knowledge of specific markets.

The impact of these changes in ownership on the "traditional" pattern is further illustrated by a number of surveys. The Agricultural Income inquiry of 1937 based on 1933 data revealed that 10 southern companies produced 15.8 per cent of the nation's sales yarn;<sup>16</sup> six produced 15.3 per cent of the cotton

<sup>14</sup> S. J. Kennedy, *Profits and Losses in Textiles*, pp. 19, 115-121.

<sup>15</sup> Hiram S. Davis, George W. Taylor, C. Canby Balderston, and Anne Bezanson, *Vertical Integration in the Textile Industries*, pp. 39-52.

<sup>16</sup> Bibb Manufacturing Co.; Standard-Coosa-Thatcher Co.; Textiles, Inc.; Calloway Mills; Cannon Mills Co.; Mount Vernon-Woodberry Mills; Lincoln Mills of Alabama;

fabric;<sup>17</sup> six additional companies with plants both in the North and South produced 19.2 per cent of the cotton fabric.<sup>18</sup> A 1935 study reveals that the four largest cotton companies, as measured by number of persons employed, had 35,430 wage earners or 9.2 per cent of the industry total and the largest eight cotton manufacturers had 57,557 wage earners or 15 per cent of all wage earners.<sup>19</sup> Concentration had made considerable progress.

More revealing as to extent of concentration are the data for individual products. Individual companies have secured protected markets not by dominating the industry as a whole, but by controlling the production of specific products. A study of the 1937 *Census of Manufactures* discloses that in the nonfine cotton goods items typically produced in the South, four companies produced more than 75 per cent of the year's output in 15 product classifications. The total value of these products amounted to 11 per cent of all nonfine cotton fabrics. In an additional group of 26 product classifications, the four leading companies produced 50 to 75 per cent of the output of these products valued at 27 per cent of all nonfine cotton fabrics. But the four leading companies accounted for only 22.3 per cent of the value of print cloth and only 19.1 per cent of narrow sheetings. The concentration movement had not significantly affected these fields.<sup>20</sup>

No summary of the moves to surmount the "traditional forms" of ownership can be complete without a reference to the private efforts of manufacturers to control production. Taking a page out of their experience with limitation of productive machine hours prescribed by NRA codes, "97½ per cent of the (print cloth) mills which had operated a third shift within recent years have made declarations that they would eliminate the third shift by July 1, 1938. An even larger percentage of two-shift mills declared that they would not go on to a third shift."<sup>21</sup> This program relieved the heavy mill inventories accumulated in the spring of 1938.

When the same problem of overproduction appeared in 1939 a formal plan was instituted. Print cloth mills with more than 95 per cent of the looms agreed to curtail production during the third quarter to "not more than 75 per cent of what otherwise would be the normal production of such mills for such period." The mills agreed not to sell any goods other than that currently produced. The curtailment program was removed on September 7, 1939, when the outbreak of

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Riverside and Dan River Cotton Mills; Carolina Cotton and Woolen Mills; and Springs Cotton Mills.

<sup>17</sup> Cannon Mills Co.; Riverside and Dan River Cotton Mills; West Point Manufacturing Co.; Erwin Cotton Mills Co.; Proximity Manufacturing Co.; and Springs Cotton Mills.

<sup>18</sup> Pacific Mills; Pepperell Manufacturing Co.; United Merchants and Manufacturers, Inc.; Goodyear Tire and Rubber Co.; the Kendall Co.; Nashua Manufacturing Co. Federal Trade Commission, *Agricultural Income Inquiry: Part I, Principal Farm Products*, pp. 312, 319.

<sup>19</sup> National Resources Committee, *The Structure of the American Economy: Part I, Basic Characteristics*, pp. 240-1.

<sup>20</sup> Willard L. Thorp and Walter F. Crowder, *The Structure of Industry*, TNEC Monograph 27, pp. 426-29.

<sup>21</sup> *American Wool and Cotton Reporter*, July 7, 1938, p. 36.



war in Europe increased demand and made the plan unnecessary. The federal government charged the print cloth manufacturers with violating the Sherman Antitrust Act. After a one-day hearing, they pleaded *nolo contendere* and were fined \$100 each.<sup>22</sup>

The southern textile industry was moving fast out of the stage of decentralized, individually owned mills entirely at the mercy of the selling house. In many significant sectors dominant concerns, frequently financed by northern capital, erected effective vertical organizations with full command of selling and merchandising organizations, supported by such techniques as special products and finishes, and reinforced by large advertising programs. These organizations maintained relatively higher rates of profit and were unmolested by the threats of overproduction besetting the vast number of mills still producing for the gray goods market. The print cloth mills took the problem of "overproduction and poor markets" into their own hands in 1938 and 1939 and solved it through collusive action in restraint of trade.

### III

The momentum which the integration movement gained during the thirties was not lost during the war and postwar period. This period favored the forces of integration. Many mill organizations extended their functions forward by adopting selling, converting, manufacturing, and/or retailing functions. The mills acquired a strong bargaining position in an era of fabric shortages. They could choose their path of action without risk and with considerable profit. Individual mills broke away from their dependence upon the selling agent. The lure of converting goods and performing subsequent operations was particularly strong since OPA price regulations allowed the producer to claim each of the subsequent mark-ups. Each new operation provided additional guaranteed profits. Mills which were too slow in learning about these devices to build up profits were aided by converters, manufacturers, and retailers in need of fabric. These fabric users were willing to lend themselves to various devices whereby the mill gained a substantial part of the mark-ups if goods were assured them. Many mills went into joint ventures with these business concerns and collected considerable profit. In other instances, mills entered upon these ventures on their own. Mills also went into the business of converting under pressure from the armed services which demanded delivery of finished goods.

Textile mill management could enter upon these operations because a minimum of skills were required during the period of fabric scarcity. Moreover, the plan fitted in well with the prevailing concept of the course the mills should follow to free themselves from the hold of commission houses. They seized upon the opportunity to extend their organization, both to make easy profits and to gain experience necessary for operating in more competitive periods. New

<sup>22</sup> In the District Court of the United States for the Western District of South Carolina, Greenville Division, *United States of America v. Joseph E. Serrine et al.* Information No. 8019. Oscar Henry Doyle, United States Attorney. *filed* Jan. 2, 1940; *Daily News Record*, Jan. 4, 1940, Sept. 3, 1940, Nov. 29, 1940.



brand names and extensive advertising programs were launched to insure later consumer acceptance long before goods could be freely sold in the market.

Concurrent with the movement toward forward integration was the one to backward integration. The scarcity of fabric placed a great premium on the possession of a mill. Consumers and sellers of textiles began buying mills to assure themselves of a supply. A number of larger converters and selling agents found their former sources of supply in direct competition with themselves as the mills extended their operations. These organizations began a hectic drive to buy mills. Often the rumor of a mill sale to outside interests was enough to clinch the purchase of the mill by the current selling agent.

One significant consequence was the change in the relation of many mills to their former selling agent. Minority interests in mills or ties sufficient to insure the continuance of the agency were transformed into substantial financial interest or complete ownership. The financial interdependence of the manufacturing and selling division was established. The integration was achieved in some instances by outright mergers and in other cases by the purchase of stock.

The development of new integrated organizations stimulated further integration. Vertical organizations extended their mill holdings to insure an adequate supply of cloth. Others bought mills to secure a variety of fabric beyond that available in their own mill organizations. Mills which bought a selling house also acquired their mill properties. An organization which wished to expand had to acquire existing mills rather than construct new ones because of the shortage of equipment, government limitations on new construction, and the high cost of new construction.

Some mills were sold primarily to convert current income into capital gains and thereby reduce tax liabilities. Because most textile mills were capitalized at very low prices in terms of their wartime earnings, an impressive portion of their earnings were paid out in excess profits taxes. High personal taxes discouraged mill owners from withdrawing profits in the form of dividends. To avoid this tax and take out some earnings, some owners preferred to sell the mill and pay a maximum capital gains tax of 25 per cent. Purchasers could afford to buy the mill at a handsome price because in that way they established a higher base for the calculation of their excess profits tax. The resulting tax savings more than compensated for the high purchase price. A number of integrated enterprises deliberately bought low-profit mills to offset for tax purposes the high profits earned in other activities. Some men capitalized on federal tax laws by arranging the purchase of mills by charitable, educational, or personal trusts to gain exemption from capital gains taxes. They subsequently leased back these properties at high rentals, thereby reducing their corporate income tax payments. Through these tax devices they were able to finance the expansion of their organizations with little resort to outside capital.

These moves toward integration must be contrasted with those which followed World War I. It is unlikely that these new large enterprises will be beset by the same problems. Managerial talent and technical competence are not lacking. The textile industry has made marked strides during the last decade in

absorbing the advances in the skills of management developed in other industries. They have learned the value of branding, special products, and advertising. They are establishing research facilities, laboratories, model plants, and textile machine companies. They are increasing their income from the lease of patents. There is no such overcapacity in facilities as prevailed after World War I. The only real competitors are modern mills. The marginal mills, in which management is unwilling to invest money in efficient equipment, mill layout, and organization, are likely to fall by the wayside, thereby insuring the continued operation of the industrial giants.

The current companies have been developed in a period of extraordinarily high profits. They now have tremendous financial resources and reserves. The earlier group of mergers experienced reverses in part because of the type of financing used to establish them. They were saddled with preferred stock and fixed interest bearing obligations. Following the reverses in the early twenties, these companies were subjected to receiverships and reorganizations. The current integrations, of course, are not subject to these limitations; they are profitable. Many have been largely financed by the issuance of common stock. Preferred stocks are primarily convertible. The debt is proportionately low. Loans have been quickly paid off from huge profits and interest rates are low.

#### IV

One measure, but not a complete one, of the significance of the new integration movement is the changes which have occurred in mill ownership. The movement began in 1943, gained momentum in 1944, and was in full bloom in 1945 and 1946. In 1947 and 1948, mill sales have continued but at a lower rate.

No full listing of mill sales is available since information is not always made public. Frequently the change is represented by the shift from a minority to a majority stockholders' position. Many groups are most secretive about the mills they own or control. But for present purposes we may use the periodic listing reported by the Fairchild Publications in the *Daily News Record*.

This survey of mill sales for the period from January 1943 to May 10, 1946, reports 72 southern textile mill sales, of which four were resales of mills previously sold, making a net change in the ownership of 68 mills with some 1,900,000 spindles and 33,000 looms.<sup>23</sup> In the rest of the year 1946, 69 southern mills with 1,700,000 spindles and 38,000 looms changed ownership.<sup>24</sup> In 1947, 44 southern textile mills with 700,000 spindles and 13,000 looms changed hands.<sup>25</sup> In the first 10 months of 1948, probably some 30 southern mills were acquired by new owners. In all, ownership was reported to have changed since 1943 in 211 southern textile mills with a total of slightly less than 5,000,000 spindles and 90,000 looms. Recorded changes in ownership therefore affected about 22 per cent of the existing capacity of the industry. But these figures actually understate the scope of changes in mill ownership.

<sup>23</sup> *Daily News Record*, May 13, 1946.

<sup>24</sup> *Ibid.*, Jan. 28, 1947.

<sup>25</sup> *Ibid.*, Jan. 27, 1947.

The changes occurred most extensively in North and South Carolina. From 1943 through 1947, 90 mills with 1,600,000 spindles and 23,000 looms changed hands in North Carolina, or approximately 26 per cent of the equipment in the state. In South Carolina, the ownership was altered in 66 mills with 1,820,000 spindles and 38,000 looms, or approximately 33 per cent of the equipment in the state.

## V

To provide a useful index of the current degree of concentration of mill ownership a study was made by TWUA of cotton-rayon, wool spinning, weaving, and dyeing plants in South Carolina as of October 1948. The financial "interest" controlling each mill was determined through a careful analysis of corporate statements, financial and credit reports, newspaper clippings, and conversations with individuals informed about persons controlling various plants.

This report does not deal with the minority interests in individual mills which may give a commission house the right of agency; the right to cloth in the case of a wholesale distributor or apparel manufacturer; or the priority on all contracts for construction in the case of engineering companies or other similar preferential rights. Nor does this study disclose the degree of cooperation among the interests and their overlapping in specific corporations. The tabulation therefore underestimates the degree of concentration and interlocking controls.

The principal findings of this survey are summarized as follows:<sup>26</sup>

1. The South Carolina textile industry is no longer controlled by isolated individual mill owners. Fifteen interests employ 88,733 persons out of the 133,408 employed in the industry as defined. They have 67 per cent of the employees, 65 per cent of the spindles, 68 per cent of the looms. They operate 106 of the 227 mills in the state and 12 of the 22 separate finishing plants.

2. The largest employers in the state are J. P. Stevens and Company, Inc., with some 13,700 employees, Deering Milliken and Company, Inc., and Springs Cotton Mills, with 13,407 and 12,000 employees respectively. These three represent 30 per cent of the industry in the state.

In the second category are those with 5,100 to 6,200 employees in South Carolina. They include Abney Mills, Greenwood Mills, Pacific Mills, and United Merchants and Manufacturers, Inc.

The third group of dominant interests are those employing 4,000 to 4,600 employees, which include M. Lowenstein and Sons, Inc.; Walter S. Montgomery, and Riegel Textile Corporation.

The fourth group are those with 3,300 to 3,400 employees, which comprise the Kendall Company, Reeves Brothers, and the Graniteville Co.

In the final group of dominant interests are Woodside Mills and Textron Incorporated with 2,000 to 2,500 employees in the state.

3. Another way of discerning the marked increase in concentration of owner-

<sup>26</sup> The full report on this survey will appear under the title *Concentration of Mill Ownership in the State of South Carolina*, a Textile Workers Union of America, Research Department, Economic Report.

ship is to identify the characteristics of the mill interests which together employ more than one-half of the employees in the state. They are interests each of which in their South Carolina textile operations employs 7,500 employees or more; has 8 plants or more; has total spindles of more than 250,000, and looms in excess of 7,000. These are therefore truly industrial giants.

4. Not only are large interests dominant in the state but the preponderance of employment in the state is controlled by northern and middle-western interests rather than local ones. These outside interests dominate the textile industry in the state. They employ 82,210 persons or 61 per cent of the total; own 60 per cent of the spindles, 59 per cent of the looms and operate 129 of the 227 plants and 14 of the 22 separate finishing plants.

5. The important southern interests in the state have also felt the impetus to extend their mill holdings.

The South Carolinian interests employ 48,419 persons and have 2,263,000 spindles, 56,921 looms, and operate 90 plants and seven of the specialized finishing plants. The dominant South Carolinian interests are large organizations; the top five have 4,000 or more employees each and employ a total of 31,820 persons; or 65 per cent of the employment furnished by South Carolinian interests. An additional 7,000 workers are employed by another group of five interests with 1,000 to 2,000 workers. The rest of the South Carolinian interests are small, 32 own only one plant apiece and employ 6,969 employees, or 14 per cent of the southern-controlled employment. Many are engaged in the production of specialty goods, such as narrow fabrics and upholstery cloth.

6. Vertical integration has gained sway in the industry. The old pattern is maintained by only 10 spinners with 1,545 employees, 85,000 spindles and operating 12 plants, and 27 textile manufacturers with 14,084 employees, 685,000 spindles, 18,014 looms, and operating 34 plants. The rest of the South Carolina industry is owned by interests which either sell their own yarn or cloth or process the fabric and carry the process on further.

7. Further insight into the marked change in the location of ownership is disclosed by a study of the year when the current owners acquired their dominant interest. One hundred and twenty plants, or 53 per cent of all plants, were acquired by their current owners in 1940 or later. Of these plants, 93 were secured from 1945 on. Turnover in ownership has been most marked.

8. The small plants are primarily owned by isolated interests whereas the large plants are generally part of larger chains. There are 27 plants in South Carolina with fewer than 100 employees. Seventeen of these, or 60 per cent, are owned by interests controlling only one mill; 12 of these are South Carolinian interests. Among the 46 plants with 1,000 or more employees only seven are owned by interests with only one plant.

It is apparent from this study that South Carolina mill ownership has been largely concentrated in a few hands. Some smaller interests have continued but they are mainly in specialized areas. Mills are being tied into large integrated organizations, which have their own selling houses or convert their own goods or process the goods through later stages of manufacture or distribution.

## VI

The very same trends which are observed in South Carolina apply throughout the entire southern textile industry. The older pattern of ownership has become obsolete. This conclusion is shown up by an analysis of the principal textile interests with substantial numbers of employees in the South. These findings also understate the extent of integration.

A measure of the degree of concentration of mill ownership is afforded by the number of employees of these large mill interests. The largest organizations in the southern textile industry are Cannon Mills and Burlington Mills, each with between 20,000 and 25,000 employees. Three large organizations have between 16,000 and 18,000 employees in their southern mills.<sup>27</sup> Together these five organizations employ some 97,846 workers, which represents about 19 per cent of all southern mill employment. A second group of three interests employ between 12,000 and 12,500.<sup>28</sup> A third group of five interests have between 7,500 and 8,500 employees.<sup>29</sup> Eight mill organizations have between 5,000 and 7,500 employees in their southern mills.<sup>30</sup> These groups, consisting of 21 interests in all, total some 223,543 employees, or 42 per cent of all southern textile employment.

If we were to include the 12 interests which have between four and five thousand employees, a total of 54,199 employees would be added to the preceding aggregate. An additional group of nine interests each employs between three and four thousand.

Thus, the 42 leading interests own 419 mills and employ 308,065 persons in the South, or 58 per cent of the total southern textile employment. In these mills there are 10,830,000 spindles and 211,057 looms. While the spindles account for approximately 50 per cent of all southern spindles, the looms represent approximately 60 per cent of the total (Table I).

Fifteen of these organizations also operate textile mills in other sections of the country employing an additional 44,280 persons, making a total of 352,345. Eighteen of the 42 leading interests are northern-owned and 24 southern-owned. These northern interests employ 125,275 southern employees of the 308,065 represented by these 42 interests.

It is significant that only seven of these interests, employing 30,057 persons, retain the traditional relation to their selling agent. The largest group consists of 17 which sell their own products through their own sales agencies. These employ 129,074 persons or 41 per cent of the total employed by the 42 leading interests. An equally significant group of interests are those which convert their

<sup>27</sup> J. P. Stevens and Co., Inc.; M. Lowenstein and Sons, Inc.; Deering Milliken and Co., Inc.

<sup>28</sup> Dan River Mills, Inc., and Cone Mills Corp., and associated interests.

<sup>29</sup> Bibb Mfg. Co.; Calloway Mills Co.; Riegel Textile Corp.; Comer Interests; West Point Manufacturing Co. and associated interests.

<sup>30</sup> Pacific Mills; United Merchants and Manufacturers, Inc.; Abney Mills; Reeves Brothers, Inc.; Goodyear Tire and Rubber Co.; Lineberger—Stowe Interests; Erwin Cotton Mills; and Simmons Co.

own fabrics. They number eight but are among the largest since they employ 83,732. There are five interests which are industrial users, including three tire companies.

Nineteen organizations maintain other industrial interests. Those making up the largest group have knitting and hosiery plants in addition to their textile mills.

## VII

The preceding discussion provides an insight into the degree of concentration of plant ownership. But the significance of vertical integration in the textile industry would be missed if only this measure were considered.

TABLE I

*Ownership of Southern Textile Industry<sup>a</sup> Controlling Interests with Southern Textile Employment of 3,000 or more October 1948*

NUMBER OF EMPLOYEES IN SOUTHERN TEXTILE INDUSTRY	NO. OF INTERESTS	SOUTH						U. S.
		Employees		Spindles (000)	Looms	Mills (incl. finish. plants)	Finishing Plants	Textile Employ- ment
		No.	Percent of Southern Textile Employ- ment					
3,000- 3,999	9	30,373	5.7	1,354	19,104	65	5	36,825
4,000- 4,999	12	54,199	10.2	1,794	22,351	81	12	73,442
5,000- 7,499	8	48,827	9.2	1,884	35,815	71	5	56,903
7,500- 9,999	5	39,985	7.5	1,148	22,593	60	5	40,860
10,000-14,999	3	36,835	7.0	1,522	38,376	26	3	36,835
15,000-19,999	3	52,081	9.8	1,855	49,093	54	4	60,215
20,000 and over	2	45,765	8.7	1,273	23,725	62	5	47,265
Total.....	42	308,065	58.1	10,830	211,057	419	39	352,345

<sup>a</sup> Textile industry includes the spinning, weaving, dyeing, or finishing of cotton, wool, or synthetic fibres, except rayon yarn mills.

Note: Southern textile employment estimated at 530,000 persons.

Our survey of South Carolina discloses that 88 per cent of the employees; 80 per cent of the mills; 88 per cent of the looms; 87 per cent of the spindles; and 95 per cent of the separate finishing plants are part of vertically integrated organizations. Thirty-five of the 42 leading interests, which employ 278,068 persons in southern textile plants, are vertically integrated organizations.

The process of integration has proceeded either forward or backward. Either mills bought up selling houses or selling houses, converters, or users bought up mills. In either case the results have been comparable. However, opportunities for successful operation and permanent interest may be different. The background and experience of the management and the balance of capacity and outlets will influence the ultimate results of the operation.

Manufacturers of cotton yarn have been moved to sell their own yarn in substantial proportions. In 1939, 60.1 per cent of the yarn was sold directly to



users and consumers, and 3.9 per cent through manufacturer-owned and operated outlets.<sup>31</sup> The mercerizers of cotton yarn almost without exception sell their own products to industrial users through their own selling organization. During recent years many large industrial users such as knitters have acquired their own yarn plants to assure themselves of a continuous supply of yarn.

Vertical integration has been an established practice in cotton thread manufacture. This field has been dominated by three large integrated companies which manufacture yarn, finish and spool thread into packages desired by the final customer. The small thread manufacturer, who usually produces for industrial users, generally buys the yarn and dyes it and spools it for the customers.

But the greatest change has taken place in the cotton broad goods industry. Prior to the war, agents, brokers, and commission houses sold 45.1 per cent of all the distributed sales. Only 9.5 per cent of the cotton cloth was sold to or through manufacturer-owned or operated outlets.<sup>32</sup> The war changed this condition. In February 1946, C. T. Murchison reported that 75 per cent of cotton production was sold by integrated organizations.<sup>33</sup> This percentage has increased since that date.<sup>34</sup> There has been some return to the older process of selling gray instead of converted goods, but these sales are being made by the integrated organizations.

This integration process has assumed four major and distinct forms. First, there are numerous gray goods mills which are integrated with a selling house which they own and control. Second, there are gray goods mills which are integrated with converting organizations. Third, there are gray goods mills which produce finished textile products such as sheets, towels, bedspreads, and blankets and sell them directly. Fourth, there are mills which are integrated with industrial users of mill products. The most important group in this category are the tire manufacturers. Then follow surgical gauze, textile bag, oil cloth, window shade, and apparel manufacturers, which include among others overalls, aprons, women's jeans, and shirts.

In the rayon division of the industry, integration has made considerable progress. Weaving plants have acquired the requisite throwing plants. An overwhelming proportion of the total rayon weaving capacity is now operated by plants which not only weave but also sell and convert. Before the war, 75 per cent of the fabric was sold by converters to the dress industry. A survey of the dress industry in June 1948 indicated that half of the cutters secured their fabric from integrated mills, and 45 per cent from converters.<sup>35</sup> A reduction in the amount of converted fabric sold directly to cutters appears in the offing, but it is not likely to affect the integration of manufacture and sale.

The patterns of distribution in the woolen and worsted industry have not

<sup>31</sup> *U. S. Census of Business, 1940, Distribution of Manufacturers' Sales, 1939*, Vol. 5, pp. 36-72.

<sup>32</sup> *Ibid.*

<sup>33</sup> *Daily News Record*, Feb. 2, 1946.

<sup>34</sup> National Credit Service, Inc., *Market Planning Service Bi-Weekly News*, Aug. 10, 1945.

<sup>35</sup> *Ibid.*



changed significantly. The large manufacturers have marketed their own fabrics. The principal innovation has been in the development of exclusive users of the branded fabrics in each of the major apparel fields.

## VIII

The old pattern of individual ownership of single mills by southern interests no longer prevails. Industrial giants dominate many branches of the industry. The overwhelming proportion of the mills are no longer tied to commission houses with interests at variance with their own. The most lasting forms of integration are those which combine the manufacture and sale of yarn and fabric and use them directly for industrial, household, or apparel purposes. The proportion of fabric which has been converted by the manufacturer has declined from the high point during the early postwar days. But this is only one type of advanced integration. The more significant trend is the welding of production and sales into one organization.

The production of gray goods for the open market has shrunk. Mills are moving to specialized fabrics. Other significant developments are the improvement of textile finishes; the development of specific fabrics for identifiable uses; the expansion of the use of brands and advertising; the construction of new research facilities; and the invention of new textile machines by the integrated companies.

The first significant result is that the production schedules on specific fabrics will be more closely aligned with variations in demand. One observer has described the tendency in the following words: "Because of the great percentage of mills where manufacturing and selling are now under the control of the same management, there will not be repetition of what happened during the last depression. Production will be controlled and therefore, very little curtailment will be needed to keep production and demand in balance."<sup>36</sup>

The success of the textile interests in curtailing production of fabrics and constructions in oversupply has already been displayed. In the second quarter of 1948, production declined as over against 1947 in such fabric categories as birdseye diapers, towels, toweling, and wash cloths, for which demand had dropped. Production rose for colored yarn goods, for which fashion had improved demand. In the third quarter we witnessed a sharp contraction in New England fine goods production. Mill organizations are financially able to hold up production to prevent a collapse of prices. As the editorial writer of the *New York Journal of Commerce* declared, "rather than pile high cost goods which they may later have to sell off at a loss, mills prefer curtailing production or, wherever possible, switching it to more desirable types of cloth."<sup>37</sup>

In the area of finished textile products such as sheets, bedspreads, denims, colored yarn fabrics, where mills have direct control of sales, prices have tended to be relatively stable throughout the postwar period. The same is also true of other mills' converted products. This restraint in pricing is in marked con-

<sup>36</sup> *Daily News Record*, May 18, 1948.

<sup>37</sup> *Journal of Commerce*, New York, Aug. 27, 1948.

trast to the runaway price situation in the gray goods markets. Nevertheless, some individual integrated organizations did take advantage of the sellers' market and set unusually high prices. The same price stability in mill-finished textile products also has been evident in the period when gray goods prices have dropped. Administered prices do not fluctuate widely. The demand for goods controlled by integrated organization is also currently standing up better because of the combined effect of the factors of prestige selling associated with brands, specially designed fabrics and finishes, and the relative vigor behind promotional activities.

Large scale organizations are not only altering the production and price patterns prevailing within the southern textile industry, but are also changing the types of products. Generalized fabric is diminishing in importance. Specifically designed fabrics are rising in volume.

Equally important is the increase in the number of southern mills entering upon the production of fabrics containing other than cotton yarns. The larger organizations have the technical "know-how" for the production of woolen and rayon fabrics. Many have operated such mills or have incorporated such mills into their organizations. They are therefore expanding them. Most new woolen mills or mills processing woolen fibres belong to the large chains and are being built in the South. Many of the new rayon mills are also being built by them. Blended fabrics are being woven in great volume. The chains are also promoting new finishes. They have been in the vanguard in utilizing the cotton system on woolen fibres. A number are introducing other new synthetic yarns. Their technical versatility has permitted them to develop numerous fabrics serving the same market; they are therefore entrenching themselves in these markets. They have helped to advance the merger of the cotton, rayon, and woolen industries into a single industry.

These large mills have also been at the head of the mill modernization movement. Their mills are among the most modern. Their costs are among the lowest. Their technical efficiency tends to be high. Moreover, they have led in the application of modern managerial techniques to the textile industry. In their eagerness to apply techniques with which these managements have had only the remotest familiarity many errors have been made, particularly as they affect the worker. Many techniques have been applied without adjustment to the special needs of the textile industry. Management is learning the hard way because neither its leaders nor its technical consultants have taken the time to master the new techniques fully before they were introduced.

The result of these radical changes, running concurrently with the growth in size, development of new products, and appearance of new forms of organization, will be a high mortality among the smaller, less ably financed and less modern plants with backward merchandising practices. The rate of industrial fatalities may therefore be high. Active foreign interest in equipment is likely to accelerate the movement.<sup>23</sup>

The significant fact for the southern economy, which will become evident

<sup>23</sup> *Ibid.*, May 28, 1948.

only after the modernization program has been completed, is that the control and ownership of these tremendous mills have shifted northward. The profits and dividends will also move northward.

The textile industry provided the funds through which much indigenous southern expansion was built in the past. This trend is less likely to continue. The internal southern market must be the principal base for attracting new enterprise to the South. The expanded buying power derived from the rise in southern textile wages and income opened up opportunities for new industries in the past. The southern economy must insure such a high level of buying power among its people as to offset the export of income in the form of dividends and capital gains which will result from the shift of ownership of the textile industry from the South to the North.

## INDUSTRIALIZATION AND THE SOUTH

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### I

All over the world underdeveloped countries, in revolt against what they call their colonial status, seek industrialization as the solution of all their economic and social ills.

These high hopes are justified when the rise in productivity resulting from the use of modern tools gets quickly converted into a higher standard of living—i.e., into a preference for more material comforts rather than more children. Otherwise industrialization merely results in an increase in numbers. Though the workers in the modernized segment of the economy may be as effective as workers on similar jobs in the more advanced industrial countries their wages can never rise very far above the subsistence level. This makes them formidable competitors in world markets.

It is not surprising, therefore, that the people in industrially advanced countries regard the rapid industrialization of agrarian countries with mixed feelings. These mixed feelings find clear expression in the activities of the International Labor Office and in the charters of the new international agencies—the Bank, the Fund and the International Trade Organization.

The ILO, for example, has from its inception preached the doctrine of free international trading and the advantages of industrialization, but at the same time it has sought, with very little success, it is true, to get the governments of poorer countries to impose higher minimum standards on their export industries than market forces make necessary. A confused admixture of sincere concern for the poverty in industrially undeveloped countries and selfish protectionism runs all through the activities of this international agency.

The charter for the new international trade organization adopted at Havana reveals the same admixture of hopes and fears. The goal of a world knit together through multilateral international trade carried out with stable currencies and moderate and declining tariffs is proclaimed in the preamble. The bulk of the document, however, is devoted to permissible exceptions required to protect the infant industries of the underdeveloped countries and the perennial infants and the welfare and employment programs in the industrial countries. If these welfare programs guarantee more than an economy can presently support the country is said to be confronted with a "fundamental disequilibrium" and may be authorized to use exchange controls, currency revaluations, tariffs, quotas, etc. As a further protection against the results of domestic reform measures that unduly raise costs the industrially advanced countries secured the insertion of a fair labor clause into the Charter. Member governments are required to recognize that "unfair labor conditions, *particularly in production for export*, [italics added] create difficulties in international trade and accordingly to take

whatever action may be appropriate and feasible to eliminate such conditions within their territories" and, if they are also members of the ILO they must co-operate with it in its efforts to give effect to this undertaking (Art. 7).

All this will seem a far cry from the topic of this paper until it is realized that the states of the old Southeast play the role on the American stage that the "undeveloped countries" play on the international stage, and that the South's industrialization meets with the same mixed reception. People in the established industrial areas know that a more industrialized and prosperous South will open up a vast new market and will be good for the country as a whole, but they are fearful of the adjustments that may have to be made to fit the New South into the American economy.

## II

Fortunately the solution of the southern problem is vastly simpler than that of the undeveloped countries. In the Southeast the birth rate is rapidly yielding to the American standard of living, and peaceful migration provides an escape valve while the South moves toward a more balanced position. The level of education and the level of productivity already attained guarantee that further advances can be made without excessive sacrifices of current levels of living. The security of property rights, assured by state constitutions and the federal constitution, give the South access to American investment funds on more favorable terms than the "undeveloped" countries can obtain. Risks and hence costs are further reduced because the southern states cannot impose on themselves expensive public services or high and guaranteed incomes and then check imports from other parts of the country or stop payments of interest on extraregional funds previously invested in southern industries on the ground that they are confronted with a fundamental disequilibrium. Vis-a-vis the other parts of the country the South is on an unconditional interregional gold standard. The ability of absentee investors to withdraw their profits at will enables the South to get all the outside assistance it can profitably use.

Nonetheless southern industrialization faces certain difficulties that are not present in the case of sovereign nations. It cannot give its "infant industries" that protection which advanced industrial countries gave their infant industries at the corresponding stage in their development because their principal competitors are within our tariff walls. Nor can the South hold its business leaders as easily as can countries in a world where differences in language, immigration restrictions, and national patriotism all combine to keep men at home. Since this small leadership group is peculiarly mobile—much more so than the rank and file of the working population—the South must treat them well; otherwise it will lose them to other regions which are always looking for talent. Other obstacles which are in the process of disappearing or at least of being reduced are the freight rate structure and the basing point and freight absorption systems of pricing. In international trade these latter practices, which result in lower mill prices to foreign consumers than to domestic consumers, are known as dumping and invariably provoke countervailing duties.

## III

More than seven years ago Professor J. J. Spengler published an analysis of regional developments in manufacturing in the United States over the period 1899-1937. He noted that the Southeast and the Southwest were the only ones that had gained relatively and he ventured the prediction "that a considerable proportion of such future manufacturing as takes place in the United States will take place . . . in the Southeast."<sup>1</sup> While this may have been a bit over-optimistic, a recent McGraw-Hill study shows that industrial migration in the United States in the eight-year period 1939-47 has occurred on a larger scale than ever before and that the Southeast, the Southwest, and the Far West were the only ones to make relative gains.<sup>2</sup>

"The old Southeast," the report notes, has forged ahead steadily with the biggest gains since 1939 in textiles, lumber, and smaller gains in foods, paper, rubber, and a few other industries. The Southwest has registered more than average gains in almost every industry group and "new plant construction is running triple the nation's average pace." The growth of the Far West continues to be phenomenal.

The concentrated industrial location pattern of the late 19th century is thus slowly but surely breaking up, and the threat of atomic warfare may speed the process.

## IV

Despite this encouraging diversification, the old South is still very poor by comparison with its neighbors and unskilled labor is still its most abundant human factor. In 1940, for example, there were 100 semiskilled workers in New England to every 50 unskilled workers and 100 skilled workers to every 114 unskilled workers. In the Southeast the corresponding ratios were 100 semiskilled to 194 unskilled and 100 skilled to 412.5 unskilled workers. The marked differences in the compositions of the labor forces in the different parts of the country are shown in Table I, which is based on the 1940 census.

It is apparent from Table I that the old South's economy is heavily weighted with unskilled laborers and with small farm proprietors who are little if any better off. In a society in which rewards are related to contributions it is inevitable that per capita incomes in the South should be substantially less than in other parts of the country. Table II reveals the extent of the income differentials in 1929 and 1947.

The changes in the 18-year period are substantial and it is encouraging to note that they are all in the direction that one would expect in a dynamic private enterprise economy in which labor and capital are both reasonably mobile. The states of the Middle East (Delaware, Maryland, New Jersey, New York, Pennsylvania, West Virginia, and the District of Columbia), where per capita

<sup>1</sup> "Regional Differences and the Future of Manufacturing in America," in *The Southern Economic Journal*, April 1941, p. 488.

<sup>2</sup> Made by McGraw-Hill Department of Economics and appearing in the August 7, 1948, issue of *Business Week*.

incomes were highest in 1929, were the greatest relative losers. New England and the Far West showed somewhat smaller relative losses—11 and 7 per cent as against 13 per cent for the Middle East. The 71 per cent increase in the population of the Far West in the period under consideration, almost four times that for the country as a whole, explains the failure of that favored area to register

TABLE I  
*Employment Groups as Percentage of Total Employment, 1940\**

GROUPS	UNITED STATES	NEW ENGLAND	MID-ATLANTIC	GREAT LAKES	FARM WEST	FAR WEST	SOUTH-EAST	SOUTH-WEST
Professional .....	7	8	8	7	7	8	5	6
Nonfarm Proprietors.....	9	8	9	8	9	11	6	9
Clerks, etc.....	18	20	22	20	17	21	11	14
Skilled Workers.....	11	14	13	14	9	13	8	8
Semiskilled Workers.....	20	32	25	23	14	18	17	13
Unskilled Workers.....	24	16	20	19	22	22	33	30
Farm Proprietors.....	11	2	3	9	22	7	20	20

\* As compiled by McGraw-Hill Economics Department and published in *Business Week* during 1947.

TABLE II  
*Per Capita Incomes by Regions, 1929 and 1947\**

STATE AND REGION	AMOUNT IN DOLLARS		AS PERCENTAGE OF NATIONAL PER CAPITA INCOME		PER CAPITA INCOME IN 1947 AS PERCENTAGE OF 1929	PERCENTAGE CHANGE IN RELATIVE POSITION 1929 TO 1947
	1929	1947	1929	1947		
Continental U.S.A.....	680	1323	100	100	195	—
New England.....	838	1444	123	109	172	-11
Middle East.....	926	1559	136	118	168	-13
Central.....	720	1391	106	105	193	-1
Northwest.....	534	1373	79	104	257	+32
Far West.....	865	1559	127	118	180	-7
Southeast.....	344	883	51	67	257	+31
Southwest.....	464	1081	68	82	233	+21

\* From *Survey of Current Business*, U. S. Dept. of Commerce, Sept. 1948, p. 17.

a relative per capita gain. Even so the absolute gain was substantial and moved the region up to parity with the Middle East.

The Southwest registered a 21 per cent improvement in its relative position; the Southeast a 31 per cent improvement. Only the Northwest's 32 per cent gain exceeded that of the Southeast and this was due to the combination of the extraordinarily favorable agricultural prices prevailing in 1947 and a heavy exodus of population from the area. Between 1929 and 1947 the population in this region increased by only one per cent. The Southeast and the Southwest, on the other hand, registered their large relative income gains while their populations continued to grow at about the 18 per cent rate registered for the nation as a



whole. The older industrial regions lagged in their rates of population growth as well as in their per capita income gains.

Regional differences in incomes are thus being slowly but surely narrowed. Nonetheless the gap is still disquietingly large. At the end of 1947 the average per capita income in the Middle East and the Far West was 76 per cent greater than in the Southeast. The average per capita income in the five wealthiest states (Arizona, New York, Connecticut, Delaware, and California) was more than twice that in the five poorest states (Mississippi, Arkansas, South Carolina, Alabama, and Kentucky). Throughout the period 1929-1940, however, this ratio had been more than 3 to 1. Highly significant is the fact that during this same period, if 1937 was typical, the differential was much smaller in the case of nonagricultural wage earners. For all nonagricultural wage earners the ratio was 2 to 1; for wage earners in industry 1.76 to 1. Thus in terms of locally available alternatives the South's industrial workers appear to be *relatively* well paid—however inadequate their incomes are by comparison with those in other areas.

#### V

The United States will obviously be a better country to live in and more unified, politically and socially, if levels of living in the different parts of the country can be brought still closer together. There is no corresponding agreement, however, as to how this result can best be accomplished.

In December 1944 a subcommittee of the Committee on Agriculture of the House of Representatives held extended hearings on the cotton industry in all its ramifications. Since the cotton industry is still the single greatest stone in the foundations of the South's economy the 850 pages of testimony necessarily touched on almost every aspect of southern economic life. Much sense and nonsense are to be found in the record. Agreement as to the causes and cure for the postwar ills that promised to confront the industry and the cotton growing states was conspicuously absent. Accordingly the chairman of the subcommittee, Representative Stephen Pace of Georgia, requested the National Cotton Council of America to sponsor a systematic study of the postwar agricultural and economic problems of the Cotton Belt.

In May 1945 an organization meeting was held in Memphis, attended by representatives of some 41 agencies and business organizations concerned with one or another aspect of the agricultural and economic problems of the Cotton Belt. At that meeting it was agreed that the over-all problem should be broken down and analyzed as follows:

Adjustments Toward Efficient Agriculture in the South.

The Preparation for Markets and Marketing of Cotton and Cottonseed.

Cotton Goods Production and Distribution Techniques, Cost and Margins.

The Competitive Position of Cotton and Other Materials.

Production Studies of Synthetic Fibers and Paper.

Foreign Market Outlets for American Cotton and Cotton Manufactures.

Industrialization and the South.

## Southern Education Problems.

## The Health Situation in the South and Recommendations for the Future.

Nine subcommittees were set up and their work was coordinated by a Central Steering Committee under the chairmanship of the late Dr. Clarence Dorman, director of the Mississippi Experiment Station.

The committee making the report on "Industrialization and the South" consisted of V. Lewis Bassie, United States Department of Commerce; John M. Blair, United States Department of Commerce; Robert M. Weidenhammer, United States Department of Commerce; Harold F. Breimyer, United States Department of Agriculture; H. M. Douty, United States Department of Labor, BLS; T. W. Reedy, United States Department of Labor, BLS; Robert French, University of Texas; Milton S. Heath, University of North Carolina; W. K. McPherson, Tennessee Valley Authority; Stephen Raushenbush, United States Department of Interior; Harold Rowe, Brookings Institution; William H. Stead, Federal Reserve Bank of St. Louis; and W. L. Taylor, Southern Railway System, this committee to be under the chairmanship of the author of this article. Through the assistance of the departments and agencies represented on the committee a voluminous and valuable body of materials was assembled and analyzed and an attempt was made to indicate how the federal government, the state and local governments in the Cotton Belt, and private groups might most effectively collaborate in making conditions favorable to the further development of the cotton South.<sup>3</sup>

The committee's diagnosis ran very much along the lines sketched above. The committee was also in substantial agreement that the leveling up process could go forward most effectively in an expanding economy and as a result of further industrialization with declining reliance on emigration; that this would require an enormous in-movement of capital, primarily though not exclusively private profit-seeking capital, if the very large displacement of workers from southern cotton farms which was to be expected as a result of the mechanical cotton picker, the flame weeder, and the rapid adoption of the tractor and other labor-saving appliances were not to depress southern nonfarm incomes below their already inadequate levels. The magnitude of the required adjustment was recognized in these words: "Thus, the plain fact of the matter is that the South as a region is still poor, and until useful jobs can be found for the manpower released by new technology it has excellent possibilities of becoming even poorer."<sup>4</sup>

## VI

The committee agreed that the best way to prevent this deterioration and to make possible the continuation of the slow but steady relative improvement in levels of living in the South would be for the federal government to:

<sup>3</sup> The nine reports are to be found in the Hearings before the Special Subcommittee on Cotton of the Committee on Agriculture, House of Repres., 80th Cong., 1st Sess. July 7 and 8, 1947. A limited number of reprints of the report on *Industrialization and the South* are being held by Harold F. Breimyer, U. S. Department of Agriculture, and are available on request.

<sup>4</sup> *Ibid.*, p. 9.

1. Provide financial assistance to small business through loan insurance.
2. Carry on research and promote the application of research to business enterprises.
3. Promote a transportation policy that will stimulate a more diversified and a more highly finished type of industry throughout the Southern States. Two suggested measures are greater use of class rates, based as far as possible on cost principles, and coordination of expansion in transportation both within itself and with other branches of the southern economy.
4. Eliminate monopolistic practices that hold back southern production. The committee regards monopoly as so peculiarly detrimental to the South that it recommends a long-range study of the problem by competent public or private agencies.
5. Eliminate interstate trade barriers and work for the elimination of restrictions in other regions on the use of southern products (e.g., margarine).
6. Promote use of the large surplus war plants in the South by small business through plans such as multiple tenancy. . . .
7. Maintain a substantial, federally financed investment program designed—
  - (a) To encourage industrial expansion or other readjustment that will increase productivity;
  - (b) To maintain and improve both human and natural resources through federal aid, particularly for education, health, and conservation; and
  - (c) To moderate fluctuations in the level of economic activity.

Only with respect to a very innocuously worded recommendation was there any disagreement and the majority of the Committee on Industrialization and the South undoubtedly felt and still feel that the chairman was unreasonable in insisting upon submitting a dissenting statement.

The recommendation in question reads as follows:

Provide minimum standards of welfare and promote wage agreements that reflect the full contribution of workers to production, through adequate minimum wage standards and through the responsible exercise of collective bargaining.

It seemed then, and it still seems to the chairman that the theoretical reasoning in support of this recommendation is fallacious, that the political assumptions which underlie the innocuous adjectives "adequate" and "responsible" are unrealistic and misleading, and that the supporting inductive evidence contained in the report is inconclusive. Obviously there is some wage rate which would not affect employment anywhere and the adjective "responsible" can be given a meaning that makes collective bargaining unobjectionable. But before the chairman could subscribe to this seemingly reasonable recommendation he felt impelled to state clearly why, in his judgment, a nationally uniform minimum wage high enough to be regarded as adequate by people in most parts of the country or wages established as a result of responsible industry-wide bargaining were almost certain to reduce the Old South's capacity to attract the extra regional capital needed to prevent the realization of the committee's warning that "until useful jobs can be found for the manpower released by new technology (the South as a region) has excellent possibilities of becoming even poorer."

## VII

The report stresses the fact that while wages represent "an element in the cost of doing business," they also "represent income" and that "a modern private enterprise economy requires mass purchasing power (in the hands of wage and lower salaried workers, farm laborers, small farmers, independent professional workers, etc.) . . . if high levels of production and employment are to be maintained."

There are at least two questionable assumptions in this statement. Will a substantial fiat raising of the minimum money wage in the industries covered by the Fair Labor Standards Act, i.e., in the South's export industries, really increase the money wages of the groups outside the scope of the act? The statement can only be true if the increase in total labor costs in the covered plants does not reduce substantially the number of workers they can afford to hire or the rate at which the demand for labor would otherwise increase. In this connection it must be borne in mind that an increase in the entrance rate forces an upward adjustment in practically every wage and salary classification throughout a plant, thereby increasing the total wage bill by a multiple of the amount required to bring the entrance wage up to the stipulated minimum, and that this increase is substantially greater in southern plants than in plants located in high wage areas. Hence added costs cannot be shifted in the form of higher prices.

Situations can be cited, of course, in which increases in money wage have been absorbed as a result of better morale or of the introduction of better tools or improved managerial practices, but these situations cannot be made the basis for any broad generalizations.

Given the "biological robustness" of the southern farm and rural population it is highly probable that a further artificial widening of the large gap that now separates the wages in manufacturing from those in farming and intrastate activities generally will slow down the rate of transfer of population from intra- to interstate jobs. If this happens, the money incomes in the former will be forced down and the workers in these fields will find that the prices of most of the things they buy, other than food, will be increased. Thus they suffer a double loss and the real purchasing power in low income regions is reduced and distributed more unequally than before.

A second questionable assumption in the statement here under consideration is that a diversion of funds from property owners to workers creates additional purchasing power. As far as the South is concerned this seems to be very dubious. The South is like parched and thirsty land that will absorb almost unlimited quantities of water. In view of the immensity of the region's capital requirements and the rate at which it has been putting capital to work, a million additional dollars in the form of profits constitute an even more effective type of demand than an equal amount disbursed in the form of higher wages to a group of wage earners whose incomes, modest as they admittedly are, are nonetheless high by local comparisons. The former leave the economy better equipped and ready to move to higher production levels; the latter contribute to the well-being of a fortunate minority and that is all. The "leakage" in an extra southern profit

dollar as a result of hoarding or investment in another part of the country is probably less than the "leakage" in an extra wage dollar in the form of an increased demand for finer consumer goods presently being produced outside the South. In brief, the purchasing power argument, as it appears in the report, seems peculiarly misleading when applied to a region like the South.

Confronted with this theoretical argument the proponents of a nationally uniform and "adequate" minimum wage say: "Look at the record. There is no evidence that the minimum wages imposed by the NRA Codes and later by the FLSA wiped out regional differentials or retarded the industrial growth of the South."

Professor Lester<sup>5</sup> of Princeton is the foremost academic exponent of this position. He has urged us orthodox economists to study the facts of industrial life in the South and he has offered theoretical arguments to explain why the marginal productivity theory of wages which we appear to invoke fails as a prediction device.

The writer welcomes this opportunity to explain why the appeal to the record and the attack on the marginal productivity theory of wages had failed to convince him of his errors. The trouble with the evidence and the new theory is that they deal with an excessively short period of time and do not take adequate account of simultaneous developments in other fields—the famous *ceteris paribus* beloved of economists.

The exponents of the more orthodox theory are aware that the South's industrial development has not been halted. They want to know, however, what would have happened if the federal budget had been balanced and the federal government had not been making vast public outlays in the area directly and through grants-in-aid and if prices and wages had not been rising as the long shadow of World War II spread across this continent. By the time the 40-cent minimum became general inflation had pretty well neutralized any effects it might have had, positive or negative. In brief, as this writer sees it, the record cannot be used to prove inductively the effect of a high and uniform minimum wage upon a peacetime economy operating without the inflationary stimulus of deficit financing. Proof here, as in the case of the protective tariff, requires deductive reasoning.

Professor Lester's efforts at providing theoretical support for the position he takes with respect to the minimum wage and to industry-wide collective bargaining suffers from the same defect. The emphasis is too much on the short-run effects. The marginal productivity theory of wages does not require those who accept it to predict that a substantial increase in wages will immediately lead going firms to cut employment. Plant, machinery and equipment for the time being partake of the characteristics of land, and the return is more in the nature of rent than interest—a quasi-rent. It pays to keep a plant in operation as long

<sup>5</sup> See his *Wages under National and Regional Collective Bargaining: Experience in Seven Industries; Insights into Labor Issues*; and his testimony before the Joint Committee on Labor Management Relations, 80th Cong., 2nd Sess., Pt. 2, pp. 908 (June 8, 1948); and numerous journal articles.

as revenues cover variable costs. A zero return on the original investment may not close existing plants. Going on may be the only way of recovering part at least of the original investment. It may even be worth while making a further investment in improved equipment if anything over and above interest on this added investment can be earned because this may be the only way in which to avoid closing down and thereby taking a still heavier loss.

The situation is very different when it comes to money capital in search of new investment. Liquid capital will not freeze itself into bricks and stone and expensive and durable equipment unless the owners are reasonably convinced that the price and cost situation for some years to come promises returns adequate to cover not only variable costs but interest and amortization of the funds to be frozen into durable concrete capital.

All this adds up to saying that the imposition of an uneconomically high wage has little immediate effect on going concerns. It works out its results only over a considerable period of time and shows up in the number of new plants that were never established. While the federal government has made enormous strides in its statistical techniques and in the coverage of economic activities, this statistic is still lacking.

#### VIII

These are some of the reasons which led the writer to conclude:

1. That the record of the recent past affords no reliable basis for determining the long-run effects of a high uniform minimum wage imposed upon an economy as vast and diversified as that of the United States;
2. That the long-run effects will be felt first in the slowing down or halting of investment in new plants in low income areas and very much later in the contraction of established plants;
3. That when this occurs, and much earlier in an expanding than in a static economy, profit margins will tend to widen in the high income-high wage areas where the minimum wage does no more than recognize the verdict of the market;
4. That since the workers in these areas are very well organized they will promptly demand wage increases based on the increased ability of the favored plants;
5. That these demands will be granted and the costs shifted in higher prices, since the alternative would be increased unemployment, which the government is politically committed to prevent (vide The Employment Act of 1946);
6. That when this occurs the old minimum wage will lose its protective power, exactly as stable tariff rates lose their effectiveness, and capital will again begin to flow in increasing quantities into the South in search of cheaper labor;
7. That the resumption of the capital flow will lead to a renewal of the charge that the South is exploiting labor and to a demand that the minimum wage be raised;
8. That, pending an upward revision of the FLSA minimum, the leaders of the unions in high wage areas which find their wage rates and employment threatened by developments in the South will attempt to organize the southern branches of



their industries, with a view to protecting their own positions, proclaiming at the same time, and no doubt with a complete sincerity that does more credit to their hearts than their heads, their concern for their exploited brothers in the benighted South;<sup>6</sup>

9. That in so far as northern companies venture to establish branch plants in the South the threat of strikes in their main plants will frequently be enough to make them see the equity of paying substantially the same wages for similar work in their southern plants without regard for the resulting local wage distortions;

10. That in so far as southern competition expressed itself in the field of federal contracts, the unions, with the open or tacit support of the businessmen involved, will demand and secure from a sympathetic Department of Labor minimum wage determinations under the Walsh-Healey Act substantially higher than any nation-wide minimum to be had from even a willing Congress (vide recent findings of the Secretary under the Public Contracts Act), thereby accomplishing by indirection what they cannot accomplish through direct pressure upon the Congress or through their organizational efforts;

11. That the fear of competition, which leads many business leaders and almost all union leaders to translate the innocuous adjectives "adequate" and "responsible" in the committee's wage policy recommendations into claims for protection against the effects of southern industrialization, will almost certainly lead these same groups, when and if importing really assumes large proportions, to demand and our government to grant similar protection from foreign nations where real wages will long be far below those in the "export" industries of the South.

It will be seen from this catalogue of objections to the mild recommendation of his colleagues for an "adequate" minimum wage and "responsible collective bargaining" that the writer felt and still feels (a) that as a matter of practical politics a uniform minimum wage in the hands of "the largest and most powerful labor movement the world has ever seen" (this is Professor Slichter's judgment in *The American Economy*) is bound to be used to whip-saw money wages upward substantially faster than American applied science and technology can reduce money costs (i.e., inflation); (b) that the spread to all parts of the country of industry-wide bargaining, which his colleagues appeared at least to condone, would make organized labor's power so absolute that it would in effect become the government and would have to take over exactly as in Great Britain; (c) that if this happened the fear of competition, which is the moving force behind the demand for a minimum wage and for industry-wide collective bargaining, would prevent us from

<sup>6</sup> That the South is shortly to experience an emotional "crusade" is clearly brought out in a *New York Times* report of Jan. 9, 1949, on a conference of 600 union officers and organizers from 11 southern states, held at Atlanta, Ga., on the preceding day. National CIO leaders told the group that this was to be "a spiritual crusade" led by "men with religion in their hearts," and that "if Christ were alive to-day he would join the CIO." Mr. Bittner is quoted as saying that "if human beings are good enough for God, they are good enough for the CIO." Allen S. Haywood, national vice president of the CIO told his audience that they "must go out like the early Christians and realize that this thing we are fighting for is Christianity." Churchmen were there to give the crusaders their blessing and their assurance that they were about to embark on a holy mission.



carrying through to a successful conclusion the second and most difficult phase of our present foreign policy, which commits us to buy from the countries we are helping in ever increasing quantities as rapidly as they are able to develop surpluses so that they may earn the dollars to service past loans and the additional private American loans and investments that will be needed when political grants-in-aid cease.

British trade unions and the British Labor Party are obviously afraid of international competition. Will an American labor party be any less afraid? If we are to witness the triumph within our great free trade market of the pseudo-ethics which asserts as a self-evident truth the proposition that it is unfair to expect an unskilled Pittsburgh, Pennsylvania, steel worker to compete with an unskilled steelworker in Birmingham, Alabama, or a Meridian, Connecticut, textile operative to compete with a Meridian, Mississippi, textile worker on the basis of say a 20-cent wage differential, may we not expect this same fallacious doctrine to prevail in our dealings with foreign countries where wages for years to come will be substantially lower than in the United States?

Professor Slichter tells us in *The American Economy* that ours is rapidly becoming a laboristic economy, i.e., one run primarily in the interest of the workers—the organized workers. If so it seems reasonable to predict that the government of this economy, invoking Article 7 of the ITO Charter, will insist that a condition for entering our market shall be the payment of fair wages. Is it not also probable that, if we get our costs and prices high enough, we shall discover that we are confronted with a fundamental disequilibrium which can only be corrected by tariffs, quotas, exchange controls, and currency devaluations, contingencies which are provided for in all of the new postwar international agencies?

All this may sound fanciful but we should not forget that, as Professor D. H. Robertson has recently pointed out (in *The Economic Journal*, December 1947) "any nation which gives its mind to it can create what are politely called 'balance-of-payment difficulties' for itself in half an hour with the aid of the printing press and a strong trade union movement."<sup>7</sup>

It is hardly necessary to say to economists, regardless of whether they accept or reject this reasoning, that this is not a defense of low wages as such. The writer is quite prepared to see the state use the taxing power to cut down great fortunes and the spending power to reduce the number and hence increase the marginal productivity of the unskilled by making better and more extended education more generally available. Nor would he deny that trade unionism has a positive contribution to make if it can be confined to reasonable restricted areas within which labor mobility is really possible and within which the principle of equal pay for equal work represents a workable concept. Nor would he deny that a minimum wage, variable by regions and by size of community within regions, might prove workable though he confesses that he has become very skeptical regarding the political possibilities of such a solution. The best though again an unlikely solution would be to return this problem to the states.

<sup>7</sup> As quoted by M. H. Heilperin in "Notes on the Havana Charter" in *The Canadian Banker*, May 1948.

But whatever we decide to do we should be very careful that in our proper concern for the admittedly inadequate wages of common labor in the South's export industries we avoid measures that tend to force down to even lower levels the tragically inadequate purchasing power in the hands of wage and lower salaried workers, school teachers, farm laborers, small farmers, independent professional workers, and the host of others whose activities lie outside the scope of federal law. These groups can only be hurt at the present stage in the South's development by a high and uniform minimum wage and by the pattern of wages which a powerful and militant trade union movement seeks to impose.

## ORGANIZATION AND COLLECTIVE BARGAINING IN THE LOCAL MASS TRANSPORTATION INDUSTRY IN THE SOUTHEAST\*

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### I

The local mass transportation industry is defined as the intracity transportation of passengers by bus, street car, electric trolley coach, or rapid transit vehicle operating on regular schedule. It excludes that part of intracity transportation moved by taxi or automobile for hire. It also excludes intercity bus or electric railway operation.

The industry includes over 700 operating companies significant enough to report to the Trade Association, which claims to represent 85 per cent to 95 per cent of the industry, of which about 650 have over 25 employees in the key classification of vehicle or bus operators.<sup>1</sup> The industry as a whole employs about 240,000 workers.<sup>2</sup> Average hourly earnings in the industry as a whole were, in April 1948, \$1.293.<sup>3</sup>

Many of the larger units in the industry are municipally owned, including the principal systems in New York, Boston, Cleveland, Detroit, Chicago, Seattle, and San Francisco. Of incidental interest is the fact that the charters or ordinances governing these municipally operated systems frequently make specific provision for normal collective bargaining processes, and if necessary arbitral or quasi-arbitral determination of disputes of terms of the collective bargaining agreements.

The trend toward municipal ownership has not, however, extended to the Southeast in any large measure. All of the larger southeastern systems are still privately owned. Only a very few of the smaller, such as St. Petersburg, Florida, are publicly owned.

Many of the public transportation systems were originally operated by private power companies. In the areas outside the South, most of the power companies have divested themselves long since of their transportation operations. In the South, however, this process is still in progress. Among the power company operated transportation systems in the South are those in Charlotte, Greensboro, Durham, High Point, Salisbury, Winston-Salem, and Raleigh, North Carolina;

\* This article is the result of the author's more than five years' work as a consultant on the staff of the Labor Bureau of the Middlewest, during which period he represented many transit unions in the Southeast in collective bargaining and arbitration.

<sup>1</sup> American Transit Association, *Wages, Overtime and Related Provisions*, Bulletin No. 718, New York, Feb. 1947.

<sup>2</sup> U. S. Bureau of Labor Statistics, *Employment and Payrolls*, March 1948. See also American Transit Association, *Transit Fact Book*.

<sup>3</sup> *Monthly Labor Review*, July 1948, p. 100.

Columbia, Charleston, Anderson, Greenville, and Spartanburg, South Carolina; Atlanta, Augusta, Macon, and Rome, Georgia; and Birmingham, Alabama. In the past five years, the systems in Richmond, Petersburg, Newport News, Norfolk, and Portsmouth, Virginia; Savannah, and Columbus, Georgia; and Tuscaloosa, Alabama, have been separated from power company ownership. Certain of the above mentioned power company owned transportation systems are to be separated under outstanding orders of the Securities and Exchange Commission.

The industry as a whole is well organized. The principal unions organizing local mass transportation employees are the Amalgamated Association of Street, Electric Railway and Motor Coach Employees of America, AF of L, which accepts into membership all nonsupervisory employees in the industry; the Transport Workers' Union of America, CIO, which also is an industrial union; the Brotherhood of Railroad Trainmen, Independent, which generally organizes only bus drivers; and the International Association of Machinists, Independent, which organizes the maintenance employees only. A major jurisdictional conflict between the Amalgamated and the Machinists was waged for years in the AF of L and along with the jurisdictional dispute with the Carpenters was an important reason for the Machinists leaving the Federation. The International Brotherhood of Teamsters, Chauffeurs and Warehousemen, AF of L, represents bus drivers in several smaller cities.

The Transport Workers Union, CIO, is the dominant organization in New York City on most of the several city owned subway and bus systems, as well as most of the privately owned bus companies operating in the city. It also represents employees of the mass transportation systems in Philadelphia; Louisville, Kentucky; Flint, Michigan; Akron, Ohio; and perhaps several other smaller cities. Both the Amalgamated and the Transport Workers claim to represent the employees of the San Francisco Municipal system. None of the other unions mentioned represents any of the larger systems, and these unions combined probably represent not more than a score of the small systems. The only major unorganized properties are in the Southwest—New Orleans, Louisiana (which has an independent organization whose membership is limited to employees of the one company), Houston, and Fort Worth, Texas. The balance of the large systems and the vast majority of the smaller systems are represented by the Amalgamated, which is by far the dominant union in the industry.

Generally speaking, organization in the industry is old. The large key properties, such as Chicago, Pittsburgh, Cincinnati, Boston, Cleveland, Washington, Atlanta, Birmingham, Memphis, and many others have been organized at least for 30 years and many longer. During this period, collective bargaining practices peculiar to the industry and its problems have developed. Perhaps the most noteworthy is the constant willingness, and in fact insistence, by the Amalgamated on voluntary arbitration of disputes over the terms of collective bargaining agreements.<sup>4</sup> Although there seems to be a present trend against a policy

<sup>4</sup> See Amalgamated Association of Street, Electric Railway and Motor Coach Employees of America, "Constitution and General Laws," which, in the Preamble and Objects stresses

of arbitration of contract disputes by the employers, many of the terms of current collective bargaining agreements are the result of a long history of arbitration.

Generally, vehicle operators represent about two-thirds to three-quarters of the nonsupervisory, nonclerical employees, the rest being the maintenance force.<sup>5</sup> Accordingly, the key occupation for purposes of collective bargaining is the vehicle operator. Since the industry is a public utility, there is generally only one major company employing any substantial numbers of workers in a single city. Also, there are few workers of comparable skills in other industries. Accordingly, the practice has developed in collective bargaining and arbitration over the years to use, for comparative purposes, employees of companies operating in cities of similar size regardless of geographic location, although, particularly in the South, Southwest, and Middle West, employers take the position that comparisons should be limited to companies of the same general size in the region. As a result, wages and, to some degree, working conditions at least tend toward uniformity among comparable properties throughout the country, and gains achieved on a major property tend to spread rather quickly. For example, since the war, a third week of vacation for older employees and contractual sick leave benefits have spread rapidly by arbitration over the large northern properties after having been achieved on one or two.

Unique to the industry are the various problems as to hours of work arising out of the problem of establishing vehicular schedules and dividing them up into work assignments. Hours of work are to some degree unequal among employees and come at irregular times. Many employees work split shifts with their tours of duty generally coming during rush hours with off periods between. A whole complex of working practices has been developed, regulating hours of work, providing minimum guarantees for single tours of duty, per day and per week, premiums for long spreads on split shifts, and generally meeting these unique problems of the industry. These provisions are quite complex and are not to be found in the ordinary agreement in manufacturing industry. Differences in job assignments have also led to extreme emphasis on seniority as a means of assigning work among employees.

Incidentally, with respect to hours of work, transit employees are not subject to the provisions of the Fair Labor Standards Act. In addition to the general exemption of industries not engaged in interstate commerce, there is a specific exemption of the industry in the act.

## II

For the purposes of this article, the Southeast is taken as the states of Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, and Tennessee, the area of jurisdiction of the old Fourth Regional War Labor Board. In these states there are about 66 local mass transportation systems of any size,

the principle of arbitration, and in Sections 121-127 relating to strikes and strike benefits requires a local union, on pain of forfeit of strike benefits, to offer arbitration before striking. This latter section is almost invariably enforced.

<sup>5</sup> See United States Employment Service, *Industry Composition Pattern for Transportation, Bus (Intracity)*, May 1946.

employing about 8500 vehicle operators, and about 3,000 maintenance employees.<sup>6</sup>

Several of these systems are under joint ownership. The Duke Power Company owns the systems in Charlotte, Greensboro, High Point, Winston-Salem, Durham, and Salisbury, North Carolina, and Anderson, Greenville, and Spartanburg, South Carolina. The Georgia Power Company owns the systems in Atlanta, Macon, Augusta, and Rome, Georgia. Crescent Motors, Inc., operates the systems in Anniston, Gadsden, Huntsville, and Fairfield, Alabama. A national chain, National City Lines, owns the systems in Jackson, Mississippi; Montgomery and Mobile, Alabama; and Tampa, Florida. Another national chain, United Transit, owns the systems in Nashville and Chattanooga, Tennessee, and in Richmond, Norfolk, and Portsmouth, Virginia. Hattiesburg, Laurel, and Meridian, Mississippi, are jointly owned. Several individuals are controlling stockholders in both the Pensacola and Savannah properties.

Of these 66 systems, the vehicle operators on 45 are represented by the Amalgamated. The Amalgamated also represents the maintenance employees on all but Jacksonville and a very few of the smaller systems. These 45 systems employ about 7250 vehicle operators.<sup>7</sup> A list of them follows:

Virginia:	Georgia:	Alabama (cont.):
Richmond	Atlanta	Gadsden
Norfolk	Macon	Huntsville
Petersburg	Rome	Fairfield
Portsmouth	Augusta	Tuscaloosa
Newport News	Athens	
Bristol	Savannah	Tennessee:
Fredericksburg	Columbus	Knoxville
		Memphis
		Nashville
North Carolina:	Florida:	Chattanooga
Greensboro	Miami	Jackson
Durham	Jacksonville	Oak Ridge
Asheville	Pensacola	
Raleigh	Miami Beach	
Wilmington	West Palm Beach	
	Alabama:	Mississippi:
	Mobile	Jackson
	Montgomery	Laurel
South Carolina:	Birmingham	Hattiesburg
Charleston	Anniston	Meridian
Columbia		Vicksburg

The Brotherhood of Railroad Trainmen represents the employees of Duke Power Company on their properties other than Durham and Greensboro, as well

<sup>6</sup> American Transit Association, Bulletin No. 718, *supra*. Added to the systems listed by the American Transit Association are those at St. Petersburg, West Palm Beach, Tallahassee, Orlando, and Panama City, Florida; Oak Ridge, Tennessee; Athens, Georgia; and Fredericksburg, Virginia, which do not report to ATA. In addition, several systems under common ownership listed singly by ATA have been listed here separately. This total should include all the systems with more than 20 vehicle operators, and a few with fewer. The number of maintenance employees has been estimated by applying the ratio of maintenance to vehicle employees that obtains on a few known systems.

<sup>7</sup> *Ibid*.

as the employees of Tampa (Florida) Transit Lines. The Teamsters represent the employees at Kingsport, Tennessee. The Textile Workers' Union of America represents the employees in Danville, Virginia. The Machinists represent the maintenance employees in Jacksonville, and the International Brotherhood of Electrical Workers represents them in Savannah.

The unorganized properties include Biloxi, Mississippi; Orlando, St. Petersburg, Panama City, Tallahassee, Coral Gables, and Pass-A-Grille, Florida; Griffin, Georgia; and Charlottesville, Lynchburg, and Roanoke, Virginia. The largest of these unorganized systems is that in Roanoke with about 150 vehicle operators. Biloxi and Lynchburg have between 50 and 100, and the remainder under 50.

It will be seen that in the South as elsewhere the industry is well organized, with the Amalgamated being far the dominant union. One of its locals, that in Atlanta, representing about 1400 vehicle operators and maintenance employees, represents almost as many employees as all the other unions combined together with the unorganized employees. The unions in Memphis, Birmingham, Richmond, and Norfolk are almost as large as the Atlanta local. The only other union of any real importance in the South is the Brotherhood of Railroad Trainmen, and its strength is concentrated almost entirely in the Duke Power Company system.

Organization in the industry in the South occurred almost entirely during two periods, one immediately after the first world war, and one beginning about 1936 continuing through the early days of the second world war. Among the properties organized during the first wave of organization were Wilmington, North Carolina; Charleston, South Carolina; Atlanta, Augusta, and Macon, Georgia; Mobile, Montgomery, and Birmingham, Alabama; and Memphis, Tennessee. The only southern organization predating the first world war is that in Asheville, North Carolina.

Since the second world war, the employees of the transit companies at Bristol, Virginia; Athens, Georgia; and Oak Ridge, Tennessee, have been organized. Virtually all of the remaining companies were organized between 1936 and 1944.

Organization of transit employees benefited only indirectly from the passage of the National Labor Relations Act. Certain transit operations were from the beginning clearly subject to the act, namely those which actually carried passengers across state lines, such as certain suburban systems in and around Washington, D. C., as well as transit employees of companies conducting interstate electric power businesses. In the latter category came the transit employees of the Virginia Electric Power Company, then operating the systems in Richmond, Norfolk, Petersburg, and Portsmouth. The employees of these systems gained recognition only after a long battle through the procedures of the National Labor Relations Board and in the courts.<sup>8</sup>

It was not until a final decision in the Baltimore Transit Case in 1943,<sup>9</sup> how-

<sup>8</sup> See: 20 NLRB 911 (1940); *Virginia Electric Power Company v. National Labor Relations Board*, 314 U. S. 469 (1941).

<sup>9</sup> 140 F(2d) 51, C.C.A. 4; certiorari denied 321 U. S. 795.



ever, that transit companies outside the two categories mentioned above were given by interpretation the benefit of the National Labor Relations Act. The theory of the board and the courts in the Baltimore Transit case, which held that the Baltimore Transit Company was subject to the provisions of the act, was that a stoppage of transit operations in that city would affect interstate commerce through the secondary effect on port and industrial operations in Baltimore. Under this theory, the dominant transit operations in any large city would be regarded as within the scope of the act, and probably those in many smaller cities. Each case, however, will stand or fall on its particular facts.

It was therefore only indirectly, and through the general wave of organization that came with beginning recovery as well as the passage of the act, that transit employees organized during the period that other employees were organizing, using the rights established under the act as an aid to organization.

### III

The Amalgamated maintains as a staff in the field elected vice presidents and executive board members whose duties, in addition to policy-making between conventions and organizational work, consist in assisting local unions in grievance work where necessary and in the negotiation of agreements. As a practical matter, though not formally, the division of work among these international representatives is on a geographical basis. Occasionally, when the burden of work becomes too great, the International Union hires paid organizers in addition to the elected representatives. There are relatively very few such appointed representatives, however.

These international representatives are not assigned to the assistance of a local union unless such assistance is requested by the local union. As a consequence, there are a few local unions which conduct their bargaining entirely through their own resources, and whose sole contact over periods of many years with the International Office may be the filing of the required monthly reports and the collecting of death benefits for the dependents of deceased members.

The several local unions may request assistance in the process of collective bargaining at different stages in the collective bargaining process. Beginning with the drafting of demands, some few locals will request the assistance of a representative to advise them as to what requests for change in their agreement should be made from year to year. This is, however, the relatively rare case. Ordinarily the demands arise out of the membership itself in discussions at meetings. Frequently separate discussions will be held among the maintenance employees as to their contract problems, since their jobs and consequently appropriate requests differ substantially from those of the vehicle operators. All suggestions having been thrown into the pot and discussed, the local will take a formal vote upon the question of what demands are to be presented to management. This is the typical procedure and is encouraged by the top international officers of the union.

However, there are many instances in which an international officer will be consulted during this process. The peculiar function of the international officer at such times is to keep the individual locals abreast of trends in the industry, so

that demands will be included that have some reasonable chance of achievement because of recent developments in collective bargaining or arbitration elsewhere. Further, the formulation of demands into proper terms for submission to management may be done with the assistance of an international officer.

Occasionally, but rarely, a local union at this step in the bargaining procedure may retain the assistance of the legal and research organization to which the Amalgamated most frequently turns for professional assistance, the Labor Bureau of the Middle West. That organization, with headquarters in Chicago and offices in Washington, Philadelphia, San Francisco, and, until recently, Atlanta, maintains a staff of lawyers, economists, and statisticians as well as research assistants, serving only trade unions. Its director, O. D. Zimring, is general counsel of the Amalgamated, and most local unions retain its services when the need for professional assistance arises, particularly at times of arbitration.

The services of the Labor Bureau are invoked in the drafting of demands usually only when the submission of a highly technical request, such as pensions, has been decided upon, and the bureau is asked to prepare a formal plan for presentation to management. Likewise, on the occasions when contract terms or proposals are questioned as to legality under state or federal law, the assistance of the bureau may be asked in modifying requests or existing terms so as to meet the requirements of the law.

The demands having been drafted, the typical local union in the South as elsewhere will call for the skilled assistance of an international officer during bargaining negotiations. This may be done upon the inception of conferences, or may be deferred until negotiations have weeded out the less controversial requests, and the issue has actually been joined upon matters of importance to the parties.

Should it appear that the case might eventually go to arbitration, the services of the Labor Bureau may be called upon during the bargaining negotiations. A member of the staff may then join in the negotiations to lend such assistance as his technical advice and his prestige may yield. Incidentally, the presence of the Labor Bureau is probably in large part responsible for the expanded research program undertaken by the American Transit Association designed to assist its members with information in collective bargaining and arbitration. In addition, many transit companies are now patronizing a research firm paralleling the Labor Bureau in its specialization in the transit field, the firm of Curtin and Simpson of Philadelphia.

There is one instance in which an international representative must be called upon by the local union. As indicated above, no strike is permitted unless an offer of arbitration has been made by the local union. The sanction applied is the withholding of strike benefits, which are normally \$10 per week after the second week. If it appears that a strike may occur over bargaining demands, an international officer must satisfy himself that the international constitution has been complied with in this and other respects. If he is so satisfied, he applies for approval of the strike to the International Office, which polls the executive board for approval.

As indicated above, by tradition wage rates in the transit industry vary with

the size of the community served. Generally, this pattern is adhered to in the South, and collective bargaining over wage rates frequently is concerned with discussions as to what constitute comparable rates. Generally, the larger cities of Atlanta, Birmingham, and Memphis have been regarded as a group, and the setting of a rate for one of these cities will at least determine the area within which wage discussions take place on the others. At times Richmond, Norfolk, Nashville, and Chattanooga have obtained rates closely approximating those in the three key cities. At least during the war, under War Labor Board regulations the union took the official position that all or some of these cities were comparable to Atlanta, Birmingham, and Memphis.

The initial rate among the three leader cities is usually the one most difficult of determination, because of this system of collective bargaining. Typically the union's principal argument will be to compare existing rates with newly established rates in nonsouthern cities of comparable size. This argument is usually reinforced, particularly in an industrial city such as Birmingham, by reference to general wage changes within the city and in industry generally. Likewise, the usual reference is made to cost of living.

At least in recent years of increasing pressure on transportation utilities because of declining revenues below wartime peaks, rising costs, the needs of rehabilitation and modernization, and public resistance to fare increases, much argument has been made by the managements over their alleged inability to meet further increased payroll costs. Union negotiators counter that the problem of adequate fares is purely a management one and a risk inherent in investment in public utility business. To accept wage rates less than those justified by the commonly accepted standards would constitute in effect subsidy of the riding public and/or the stockholder by the employee, or shifting of the political risks from investor to wage earner.

However, while it is definitely against the whole policy of the union, occasional agreements have been made conditioning an agreed wage increase upon approval of a requested fare increase. Parenthetically, before or after negotiations, the transit unions have generally been willing to support their managements in fare proceedings before public utility regulatory bodies. The resistance has been against tying wage negotiations to the results of such proceedings.

In the middle-sized cities in the South, in the 100,000 to 250,000 population group, there is somewhat less uniformity in wage patterns than in the larger cities, as will be indicated below. However, the pattern of wage negotiation takes much the same form—comparisons with cities of comparable size, the earlier negotiations being affected by the amount of increase in the larger cities rather than the rate arrived at if the negotiations have been completed in one of the larger cities.

With respect to hours and working conditions, intercity comparisons are likewise made as a tool for collective bargaining. However, there is less stress upon the grouping of cities of comparable size. Further, among the problems affected by the patterns of riding—length of regular runs, premiums for split runs above specified spreads, guaranteed proportions of straight runs, etc.,—local riding pat-

terms are likely to be of some weight. The official union position generally emphasizes the premium character of such provisions—that they are designed to compensate the employee affected by abnormally undesirable assignments for the burden of such conditions, where management cannot or does not respond to the penalty imposed on continuing them. However, the employees may be forced to choose between several evils. For example, otherwise desirable spread premiums may induce management to avoid their payment by increasing the number of short unassigned pieces of work to be performed by extra employees. The same result may be achieved in many smaller towns by reducing the basic work day to less than half the base period during which vehicular service is maintained. In such circumstances, the union negotiators will usually follow the desires of the membership, whatever they may be.

The last step in collective bargaining in many instances in the transit industry in the South, as elsewhere, is, as indicated above, arbitration. Techniques of presentation of statistical and economic material in transit arbitrations are well developed. Both sides, the Amalgamated through the Labor Bureau of the of the Middle West and the International Office, and the industry through the American Transit Association and private engineering firms, keep well abreast of current developments in the industry. Both sides are familiar with and skilled in the use and interpretation to best advantage of materials available through governmental or private research sources.

The traditional types of comparative presentation of materials indicated above are generally pursued. Controversy arises over the comparability of properties, over the relevance of the financial situation of the company, and over the relevance of comparisons of wage levels and wage trends in the transit industry with other industries. Likewise, the companies are likely in wage disputes to emphasize the cost aspect of wages, including all payments arising out of the contract, calculating and emphasizing total payroll cost per hour of vehicle operation, while the union likes to segregate the discussion over wage rates and each individual working condition in separate discussions over their individual merits, arguing that "fringe" payments are payments for services performed such as preparatory duties, or are costs in part avoidable by better management, or are special payments for unusual burdens, each defensible on its own merit.

The preparation of arbitration on both sides being fairly well centralized, there is continuous competition to make each case better than the last. A novel bit of data or argument introduced by one side in an arbitration on a property in New England will find its answer by the other in the next arbitration in the South. Another consequence is continued care on the part of each side to say nothing in one case that may be prejudicial in another. An innocent statement made in the South may be used by the opposite party a week or a year later against its maker in some other distant case. As a result, transit arbitrations tend to be quite extended, with never a lack of evidence, and to follow quite similar patterns of evidence and argument from case to case. This pattern prevails in southern transit arbitrations as well as those elsewhere.

It should be noted that the above described pattern of negotiation and arbitra-

tion has been modified in Florida as the result of a compulsory arbitration law affecting public utilities. This statute prescribes criteria in the determination of wages and working conditions to be used by statutory arbitration boards, requiring that wages be set at levels comparable to those prevailing for similar employees in the same labor market, or, if none, in adjoining labor markets in the state of Florida, or, if none, in states adjoining Florida. Weight must also be given to rates paid to employees in other industries in the same market. Further, the board must take into consideration in making such comparisons, the relative value of working conditions, and the relative stability of employment. Each board determines what constitutes the labor market in which the subject employees work, and what constitutes an adjoining labor market. A reading of the law would indicate that these criteria are exclusive, and the judgment of statutory arbitration boards is limited to these factors.

#### IV

The following discussion will concern itself primarily with contract clauses affecting the dominant occupation, that of vehicle operators.

A. Until the past two contracts, collective bargaining over wage rates resulted in virtually identical basic rates in the three key cities of Atlanta, Birmingham, and Memphis. A peculiar combination of circumstances, however, has resulted in unusually wide differences in the current agreements.

All three properties ended the period of wage stabilization with top basic rates for vehicle operators of \$.87 per hour plus a bonus devised by the War Labor Board based largely on changes in passenger loads varying from about 2 to 4 cents per hour.

All three agreements have renewal dates in the early spring. Collective bargaining was entered into in the early spring of 1946, the first settlement being made in Memphis for a basic wage increase of \$.15 over a gross rate of \$.90, bringing the rate to \$1.05. The unions in the other two cities, however, were determined to negotiate increases equivalent to the then prevailing first round pattern in basic industry of \$.18½. Agreement was reached in Birmingham to arbitrate the wage issue, after a short strike over the form of the arbitration agreement. Arbitration could not be agreed upon in Atlanta, since the union was pressing a pension demand which the company was unwilling to arbitrate. An offer of a top rate of \$1.05, equal to the Memphis rate, was rejected at the last minute by the union membership and a strike occurred.

This strike was terminated after six days by agreement on a top rate of \$1.07, or a net increase of \$.17, plus several improvements in working conditions affecting compensation, and an agreement by the company to contribute \$45,000 per year to a pension plan to be administered by the union, supplemental and apart from a system-wide noncontributory pension already in effect.

Upon reaching this settlement, negotiations were resumed in Birmingham, arbitration not yet having been held, and agreement was reached on a rate equal to that agreed upon in Atlanta.

The succeeding year, 1947, Memphis was again the first to settle, agreement

being reached upon a top rate of \$1.15. The unions in both Atlanta and Birmingham again considered the Memphis settlement inadequate. Agreements to arbitrate wage issues were arrived at in both cities, and this time the arbitrations were actually held.

The award in Birmingham resulted in a basic top wage rate of \$1.21 per hour. However, the union had gambled on an earlier stabilization of wage rates and living costs than actually occurred, and had offered the company a two-year agreement, which offer was accepted. Accordingly, the Birmingham rate at present remains at \$1.21.

The arbitration in Atlanta was held subsequent to that in Birmingham, and resulted in a top rate of \$1.24, the highest rate than prevailing in the South, and, as the award stated, narrowing considerably but not completely eliminating the wage differential between Atlanta and cities of comparable size outside the South. Evidence in the case showed that at that time the average rate for organized properties of a size comparable to Atlanta country-wide was about \$1.27.

In 1948, wage rates were open only in Memphis and Atlanta. This time agreement was arrived at first in Atlanta, at a rate of \$1.31. The employees in Memphis were determined to make up some of the ground that had been lost in the past two years. After protracted negotiations, a rate of \$1.27 was arrived at. The net effect, therefore, of the postwar bargaining was to open considerable gaps between the basic rates on these three key properties.

The agreements in Nashville, Chattanooga, and the one covering the Richmond, Norfolk, and Portsmouth systems open in the fall and winter. At the end of the war and the stabilization program these rates were only slightly below the gross rates of \$.90 in Atlanta, Birmingham, and Memphis—\$.85 in Virginia without any bonus, and \$.86 in Tennessee including a bonus. In the fall of 1946, the unions on both properties were successful in completely closing this gap, and agreements were reached for rates of \$1.07 in both Tennessee and Virginia.

In the fall of 1947, however, this relationship was not maintained. In Nashville and Chattanooga, after considerable complication, with the issue of fare increases getting involved in wage negotiations, rates of \$1.19 were agreed upon. In 1948, following the pattern of the Atlanta settlement, a wage increase of \$.07 was agreed upon, making the current rates \$1.26.

In Virginia, with their bargaining power severely limited by a stringent new law affecting strikes on public utilities, the employees finally accepted an offer of \$1.145 for their 1947-48 agreement. This contract, at present writing, has not reached its 1948 renewal date.

The rate in Miami has traditionally been quite high—the base rate from time to time even exceeding that in Atlanta, Birmingham, and Memphis. This was true for the wartime period, and for a brief time after the war. That rate now, however, has dropped relatively, being at \$1.25. However, as will be indicated below, the overtime rule in Miami of time and one-half after 44 hours per week provides premium rates after a shorter work week than any other southern agreement. This rule, combined with a normal run assignment of 54 hours per week or more, results in relatively high hourly earnings in Miami. Because of the



existence of this overtime rule and the long-run assignments, neither companies nor unions refer frequently in collective bargaining to the Miami rate—the companies fearing pressure for shorter overtime rules on their properties, and the unions being reluctant to mention the relatively low basic rate.

The remaining cities among those in the middle group ranked according to size are Knoxville, Mobile, and Jacksonville. Knoxville after a strike settled on a 1948 rate of \$1.20. The dispute in Knoxville was complicated by a fare issue, and the settlement was contingent upon approval of a fare increase, which finally went through. The rate in Mobile is \$1.20. Jacksonville, under the pressure of the state law mentioned above, settled in the spring of 1948 for \$1.15.

The highest rates among the smaller southern cities are on the Georgia Power Company systems in Augusta, Macon, and Rome, Georgia, where the 1948 bargaining resulted in agreed rates of \$1.19. With very few exceptions, especially in the small towns in Mississippi, the remaining rates vary from \$1.00 to \$1.12.

B. As indicated above, transit employees are not subject to the overtime provisions of the Fair Labor Standards Act. Accordingly, there are no statutory limits to collective bargaining on this subject. While among the large northern properties there has been a marked trend toward a basic 40-hour week for vehicle operators, this trend has not yet affected the South. Except for Miami, as noted above, transit operators work a basic six-day week, with premium rates paid on the one assigned day off.

Generally daily overtime is paid after eight hours per day, which may or may not include allowances for preparatory and turn-in time, or after the regular run assignment, whichever is the shorter. Among the properties having such a basic work day are Atlanta, Birmingham, Memphis, Augusta, Macon, Rome, Jackson, Mississippi, Jacksonville, and Mobile. On certain of these systems, the basic eight-hour day may apply only to regular men, with extra men having longer base hours. On the other properties, the base day for overtime purposes may be defined as a longer number of hours, or it may not be specifically defined, overtime being paid only for work performed in excess of a regular run assignment. In the latter type of case, contractual ranges are generally specified within which regular runs must lie. This latter may also be true where a specific daily overtime rule exists.

The average base work week in the South is probably well over 50 hours per week, as compared with average hours worked per week including overtime hours in the industry as a whole of 46.6 in April 1948.<sup>10</sup> Perhaps because of the somewhat lower wage rates which have prevailed in the South in the past, the southern transit worker has been reluctant to press for shorter hours for fear of reduced weekly earnings.

In addition to the basic overtime rules, southern agreements have a wide variety of work guarantees, regulation of the length of individual pieces of work, premium spread rules, rules concerning payment for short intervening

<sup>10</sup> *Monthly Labor Review*, July 1948, p. 100.



periods between split runs, and other regulations affecting hours of work which are so various that no valid generalizations can be made.

Comment should be made, however, on the fact that virtually all southern agreements, as elsewhere in the industry, guarantee the regular operator a minimum number of hours of work per day, generally eight or over, and six days work per week. In addition, extra employees are generally guaranteed minimum dollar earnings per month or semimonth. These guarantees, combined with the virtual absence of seasonality in employment, have the practical effect of a guaranteed annual wage at quite high levels in the industry.

C. The transit industry generally led American industry in the achievement of paid vacations for hourly paid employees. In 1937, 69.1 per cent of employees in "Electric Railroad and Motorbus Operation, including maintenance and repair" were working under paid vacation plans.<sup>11</sup> In that same year, only 36.7 per cent of employees in manufacturing, laundry, and extractive industries were under paid vacation plans.<sup>12</sup> By 1944, when most of outside industry was receiving the standard War Labor Board plan of one week after one year and two weeks after five years of service, in the transit industry "paid vacations were provided in all the union agreements for the 69 cities included in the survey. Two-fifths of the union members received two weeks' paid vacation after one year of service."<sup>13</sup>

Since the war, in northern large cities, there has been a marked trend toward the provision of a third week of vacation for older employees, generally after 10 or 15 years of service.

On all southern properties represented by the Amalgamated, two weeks of vacation are provided by agreement. The typical plan provides an eligibility requirement of only one year of service for the full two weeks. Some of the plans are of the graduated type, but the maximum eligibility requirement for the full vacation is five years. Most of the graduated plans provide the one week after one year, and the second week after a period of eligibility shorter than five years. The trend toward a third week has not yet touched the South.

The introduction of premium holiday pay was seriously resisted by employers in the transit industry on the ground that the industry had to continue operations on holidays, and therefore could not respond to any financial incentive to reduce employment on holidays. The unions responded that that fact did not lessen the social burden on an employee required to work on holidays, and that he was entitled to a premium for such work.

As a result of arbitration and of collective bargaining, premium pay on a specified number of holidays for vehicle operators has been achieved on a number of southern properties. In all cases, the agreements provide for time and one-half for work performed on the specified holidays, but no compensation for holidays not worked. The maximum number of holidays on which premium rates are paid is seven, at Columbia, South Carolina. The more typical number is five,

<sup>11</sup> U. S. Department of Labor, *Handbook of Labor Statistics*, 1941, Vol. I, p. 917.

<sup>12</sup> *Ibid.*, p. 909.

<sup>13</sup> *Monthly Labor Review*, Feb. 1945, p. 299.

as at Columbus, Georgia, where it was introduced after the war by arbitration award, Birmingham, Atlanta, Miami, Augusta, Macon, and Rome. Where premium rates are paid on specified holidays on the remaining properties, they range down in number of holidays from four to one. A large number of companies in the South still pay no premium pay for work performed on any holidays.

D. The achievement of collectively bargained pensions has been one of the major aims of the Amalgamated nationally. The industry is characterized by relatively high employment stability and continuity, so that typically there is a large group of employees with long years of service to whom a pension is of vital importance. This drive was accentuated in the 1930's with the introduction of the one-man street car and the substitution of busses for street cars, resulting in some net reductions in employment, and in the frequent inability of the elderly employee to qualify as a one-man operator or as a bus driver.

Accordingly, to care for these superannuated employees, the union has driven consistently for contributory, jointly administered pensions, and for their continuous improvement. In the early period of this drive, the effort was to achieve plans providing equal pension sums for all employees as a minimum retirement allowance. More recently there has been a turn toward pensions graduated in amount according to years of service and average earnings during the employee's working life, with a guaranteed minimum.

This drive gained considerable headway prior to the war, with many of the larger systems introducing pension plans, frequently as a result of arbitration awards. The passage of the Social Security Act had no effect in slowing this trend, and the war period with its concomitant high transit earnings subject to excess profits taxes accentuated it.

While some northern managements have regarded pensions as outside the scope of collective bargaining, this attitude has been more widespread in the South, and has taken considerable effort on the part of the employees to overcome. In Atlanta, for example, the Georgia Power Company during the war instituted a noncontributory plan for all of its employees unilaterally. It consistently took the position that possible improvements in the plan were outside the scope of collective bargaining. When in 1946 the union insisted on more liberal pensions, offering on behalf of the employees to make substantial contributions, the refusal of the company to bargain over or arbitrate the issue resulted in a strike. The strike settlement has been described above. The company, however, in agreeing to bear part of the cost of a second pension plan, refused flatly to take any part in its administration. It was not until this year, when the terms of the Labor-Management Relations Act of 1947 forbade the continuance of the plan administered solely by the union that the company agreed to take any responsibility for its administration.

Typical also of this attitude towards pensions was the National City Lines, a national chain owning several southern properties. The several Amalgamated unions representing National City Lines employees three years ago instituted a concerted drive toward the institution of a pension. Initially, City Lines refused to bargain over the issue at all. The matter first came to a head in Jackson,

Mississippi, a National City Lines owned company, where a strike occurred over the issue. In settlement of the strike, the company agreed to discuss pensions. Similar settlements were reached on a number of their properties, resulting finally a year later in alternative offers by the company to each of the unions as the contract came up of a pension worked out jointly by the company and the national union and lesser wage increases, or larger wage increases without the pension. The plan is a contributory, jointly administered one, whose benefits are graduated depending on length of service and earnings. Of all the City Lines systems, only those in Mobile and Montgomery, Alabama, rejected the pension in favor of the higher wage. The employees in Jackson, Mississippi, accepted the pension, and it is now in effect there.

Collectively bargained pensions are now in effect or soon will be in effect by agreement in Nashville, Chattanooga, Birmingham, and Memphis. A number of other systems, particularly those which are still owned by electric utility companies have noncontributory unilaterally instituted and administered plans.

Virtually all southern as well as northern properties have group insurance programs of some sort, generally providing for a limited amount of life insurance, and for hospitalization and sick benefits. Generally, the cost of these programs is split in varying proportions between company and employee.

While paid sick leave has been an objective of the union for some time, only recently has it had any substantial success in its achievement. Several recent arbitration awards have granted paid sick leave on certain large northern systems, such as Washington, D. C., and Minneapolis and St. Paul. This trend, however, has not yet made itself felt in the South. The few agreements providing paid sick leave are on properties still owned by electric utilities where paid sick leave is more frequent, or on one or two small systems recently separated from electric utilities, in which cases the programs were inherited from the former owner. None of the larger southern systems has any paid sick leave programs other than that provided in the group insurance programs.

E. The above paragraphs describe some of the more important or interesting provisions in southern transit agreements.

Among the remaining matters covered is that of union security and check-off. Generally speaking, where it is not forbidden by state law, the agreements provide for union shops, with a probationary period of around 60 days. However, most of the southern states have "Right-to-Work" laws, forbidding any compulsion to become or remain a union member. The requirements of the Labor-Management Relations Act have been complied with by the International Union, and existing union shops are being continued after the required elections. Typically, the southern agreement provides a voluntary revocable check-off.

Seniority is a matter of great importance in the industry, and seniority provisions are quite stringent. Layoffs are made strictly on a basis of seniority. Choice of work is also entirely on the basis of seniority, with an opportunity for general exercise of choice several times a year. Also, changes in schedules occurring between the times designated for general choice entitle the operators affected to exercise their seniority, and jobs coming open from time to time are advertised

for bid on a seniority basis. This rigid application of the seniority principle is traditional in the industry and meets with no employer resistance. It is probably the only practical means of assigning jobs generally similar in character, but differing substantially in hours, weekly compensation, and other detail.

Little problem arises out of promotion, since the vehicle operators' jobs are dead-end. With the exception of the few who are promoted to supervisory positions, the entire tenure with a company is in the same job classification. In the maintenance forces this is not the case, and frequently the application of seniority for promotional purposes is limited by ability to demonstrate qualification during a trial period.

To conclude on a minor, but interesting point, many transit companies in the South, by agreement assume the burden of loss of income required by society when an employee serves on a jury. Many agreements provide that the employee will be made whole or partially so when called to serve on a petit jury.

v

Organization of transit employees, under the banner of the Amalgamated in the South, is extensive and mature. That organization has developed along the lines traditional in the rest of the country. Achievements in the way of collective bargaining have been substantial. While contract improvements tend to lag behind the large northern properties, these latter set the pace for the whole industry, and southern agreements probably do not lag much more than do agreements on systems of comparable importance in the industry outside the south. The major exception to this latter generalization is in the matter of hours of work, where a trend toward a basic 40-hour week, well on its way outside the South, has failed to reflect itself at all in the South. The more recent trends toward more liberal vacations and sick leave in the very large northern systems have not yet had time to reflect themselves on the smaller properties, North or South. With these qualifications, southern organization and collective bargaining have followed the nation-wide pattern in the transit industry.

## THE MEDIATION PROCESS

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Collective bargaining impinges upon the public interest at a variety of points, most dramatically, of course, in the form of strikes and lockouts. Government at all levels, city, state, and federal, has therefore seen fit to intervene in the interest of fostering peace in the relations between employers and their employees. As a result public policy has become intimately woven into the fabric of bargaining practice.

### I

Governmental intervention takes a variety of forms ranging from mild persuasion to the imposition of a binding settlement. The techniques, as will be noted later, are practiced flexibly and interchangeably and are determined to a not inconsiderable degree by subjective factors. As a consequence, one form shades gently into the next, and any set of definitions is of necessity arbitrary. This field of nomenclature has, in truth, been a semantic nightmare in both popular speech and the language of the experts. Ambiguity, for example, appeared in the organic act creating the Department of Labor, for it declared that "the Secretary of Labor shall have power to act as *mediator* and to appoint commissioners of *conciliation*."<sup>1</sup> The definitions that follow, therefore, seek only to select the terms of common usage and to give them reasonable precision of meaning and distinction one from the other.

*Conciliation* is the mildest form of intervention by a third party to bring about a settlement. It may be conducted by one or several persons who normally act as government representatives. The conciliator may effect an agreement by his presence and personality alone. He exerts authority only to the extent of calling conferences, keeping the discussion on a friendly basis, controlling the order of business, and carrying the proposals of one side to the other. Conciliation does not involve making positive recommendations. Finally, the conciliator has no power to impose terms.

*Mediation*, though often used synonymously with conciliation, is a more affirmative procedure. The disputants, however, remain free to reject the process or the proposals. It may be conducted by one or more persons and may be nonpartisan, bipartite, or tripartite. When the conciliator fails, the mediator steps in to offer specific recommendations. Hence he must bring greater powers of analysis and imagination, broader experience and knowledge, wider influence and prestige, and increased moral courage. His proposals may either be substantive or procedural, a form of the latter being a suggestion to arbitrate.

*Fact-finding* reflects its borderland status between mediation and arbitration by taking a multiplicity of forms. It rests on the assumption that full disclosure

<sup>1</sup> 37 U. S. Stat. at L. (1913), 738. Italics supplied.

by an impartial agency mobilizes public opinion, thereby compelling the disputants to agree. Since the public is aroused when its interests are seriously affected, fact-finding is usually confined to strategic industries. It is normally conducted by an *ad hoc* nonpartisan board, rarely tripartite, with authority to investigate and issue a public report with recommendations. When the procedure is created by statute, the agency can require the submission of evidence. It lacks power, however, to compel compliance with the recommendations. In voluntary fact-finding the parties agree in advance to cooperate procedurally and may promise to give serious consideration to the proposals. Fact-finders must be expert and judicial, although, if the process approaches mediation, they should have flexibility as well.<sup>2</sup>

## II

The mere fact of government intervention may be sufficient to enable the parties in dispute to resolve their differences. A conciliator who serves only in the capacity of "a friend of both parties" performs an important function. It is desirable, of course, that differences should be settled even without the aid of a conciliator. Whatever agreement is reached, labor and management are going to have to live with it; it is their property. The extent to which they write a contract without intervention from the outside will in part determine its workability.

However desirable it is that a third party should have no voice in the final agreement, the insurmountable fact is that a large number of labor-management disputes are not settled in private negotiation. Perhaps, as Sumner H. Slichter has suggested, failure to reach an agreement may be due only to a lack of understanding of each side's relative economic strength or it may have more fundamental roots in a deep-seated conflict between capital and labor.<sup>3</sup> In any event, the conciliator often faces the necessity of playing a more active role in the negotiations than that of a good-humored master of ceremonies. Where previously he relied on the parties to work out their own terms, he now takes a more active part in the conferences as, in the metamorphosis of caterpillar to moth, he emerges from the role of conciliator to that of mediator.

In most situations the dividing line between conciliation and mediation is not clear-cut; the person acting in a public capacity, no matter what his title, uses whatever means are appropriate to obtain an agreement. Normally, one stage cannot be halted and another successfully begun unless a new deadline date is established and new personalities are brought into the dispute. The representative of the government will, accordingly, change his tactics to meet rapidly developing situations.

The fundamental duties of a third party may be outlined as follows:

<sup>2</sup> The term "mediation" is inclusive since it covers both conciliation and fact-finding, while they are exclusive. For this reason the first is employed to refer to the voluntary process of governmental intervention as a whole.

<sup>3</sup> "Each side, if it has accurate knowledge of the willingness of the other side to fight rather than accept certain terms, is ready to accept the terms which will bring balance between the employer's willingness to stand a shutdown and the union's willingness to stand a strike." "Strikes and the Public Interest," *Yale Review*, Dec. 1945, p. 211.



1. To see that the parties in dispute discuss their differences in as friendly and dispassionate a manner as possible;
2. To make certain that every aspect of each issue, including possible underlying motives, is fully explored;
3. To see that each side thoroughly understands the other's point of view;
4. To make certain that both comprehend the economic consequences of their failure to arrive at an agreement;
5. To suggest every possible means of obtaining an agreement, including the making of specific proposals and the exploration of alternative procedures, such as the establishment of a fact-finding board or the submission of the issues to arbitration; and
6. To shape the contract finally reached in order to promote harmonious relationships.

At least steps five and six involve a more active and expert participation than is conveyed by the term "conciliation." The functions of the government representative who offers specific proposals differ materially from those of the "master of ceremonies." He carries a heavier weight of responsibility with greater consequent risks and possibilities of achievement. Affirmative mediation requires not only a detailed understanding of the positions of the parties but also expert knowledge and a capacity to use it. If the question is wages, for example, statistical data may be available and significant. This would include such information as rates paid for similar work by competing companies, area and industry differentials, wage increases granted elsewhere, cost of living data, profit figures, and productivity changes. His obligation is to foster a contract that is both durable and workable. If, for example, the union and employer agree to a clause that is in conflict with law, he should be sufficiently informed to apprise them of the fact and urge its replacement. If they concur on establishing an arbitration machinery, he should point out the difficulties that may eventuate if they fail to provide binding means of selecting an umpire.

A major function of mediation is finding a way for one or both disputants to "save face." Union officials who have taken a firm public position find it difficult to make modifications, no matter how persuasively the negotiations indicate the necessity of compromise. Similarly, management representatives often "take a stand" and feel that withdrawal will be considered a sign of weakness. This situation is normally intensified because each is eagerly waiting for a sign of yielding by the other. Any such demonstration results in a stiffening of position on the other side of the table. The consequence is often deadlock and the function of mediation is to overcome it. It is here that the confidence which labor and management should have developed in the mediator meets a severe test. If trust has been established, he should secure some indication of the extent to which they will compromise. Neither, of course, would express these modified views to the other directly. The mediator, knowing that the parties are willing to make concessions, can then direct negotiations towards an agreement. When, however, either party, or both, prefers a work stoppage to compromise, he must create conditions to change those positions. Here again the line may be drawn between conciliation and mediation.

The mediator's principal tool in breaking down the refusal to compromise is

the public interest.<sup>4</sup> This does not mean that he can take the public into his confidence and obtain its support for specific proposals. It does imply, however, that the public usually regards an interruption of production as avoidable and will hold in disfavor the side that refuses to accept a reasonable proposal. If the dispute is settled after a protracted struggle, the public and the parties normally suffer and the resulting terms may be less workable than those recommended by the mediator. The disputants cannot ignore this pressure of public interest: it is the yardstick against which their attitudes are measured; it often affects their economic resources; and it clothes the mediator with moral authority.

In some instances, public opinion may compel employers and unions to submit disputes to arbitration even though it is obnoxious to them. To avoid this alternative they may agree to a settlement suggested by the mediator. He frequently, for example, draws up specific proposals covering all the issues and submits them simultaneously to the parties as government recommendations.

If this technique is followed, the mediator must take a calculated risk that the disputants will accept them, in principle if not in detail. Otherwise, his usefulness is at an end, since he cannot later make contrary proposals. Hence he would employ this procedure only after painstaking exploration of the merits of the dispute and of the parties' comparative economic strength. He must base proposals on a weighting of the importance to each side of every issue, "the amount of give" on each controverted point, as well as a forecast of the agreement which would be reached after a stoppage. This requires intimate familiarity with the personalities involved, the terms of the existing and proposed contracts, and provisions in agreements having a competitive bearing.

This procedure can be used only if properly timed for a final settlement. Even carefully prepared recommendations will be rejected if introduced prematurely. If they arrive too late, on the other hand, a strike may occur because there is no time to readjust plans for direct action.

### III

If the mediator's recommendations on the issues are rejected, he will normally make procedural suggestions to avoid an interruption. In fact, a principal qualification of a mediator is ingenuity in coming up with such alternatives. As Dr. William M. Leiserson has observed:

If some of the issues are settled in mediation and the parties are brought closer together on the rest, then what remains may not be worth the cost of a strike, and arbitration or recommended decisions are frequently welcomed. Mediation proceedings must be

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<sup>4</sup> This discussion assumes a public interest in seeing that a stoppage is avoided. Strikes, however, are sometimes preferable to settlements from a long-term point of view. They may be the only means of eliminating deep-seated grievances and of giving each side a healthy respect for the other's bargaining power. So viewed, they can actually create harmonious relationships. See National Planning Association, *Causes of Industrial Peace Under Collective Bargaining*, Case Study No. 2, p. 10.

directed to bring the parties to this state of mind if agreement by the parties themselves cannot be secured.<sup>5</sup>

Laying the groundwork for arbitration of the unsettled portion of a dispute is an important aspect of the mediation process. Its effective use depends on: (1) exhaustive mediation leading to the conclusion that agreement on all issues is not possible; (2) the approaching deadline for a strike or lockout, up to which point the parties may make concessions to avoid a cessation of production; (3) the timing of the proposal; (4) public interest in seeing that a stoppage is averted; and (5) understanding by the parties of the arbitration process, particularly where they can establish standards to guide the arbitrator.

Most mediation results in some narrowing of the area of disagreement. Where complete agreement is impossible, therefore, the mediator should emphasize to the parties that remaining differences are not a sufficient basis for a stoppage. A disparity of 10 cents an hour over wages might be cause for the employees to strike or for the employer to permit his plant to be closed, while two cents might hardly justify the risk. Just as employees weigh loss in earnings due to a strike against potential gain which may be achieved, so the employer weighs profit losses against prospective advantages. Labor and management decisions, however, are often made for political or emotional reasons and confront the mediator with delicate adjustments in human relationships. A union, for example, striking for 10 cents, might refuse nine cents and indefinitely prolong a stoppage to the monetary loss of its members despite, or perhaps because, a rival union had accepted that amount. Prime functions of the mediator are to apprise responsible leaders on both sides of the economic facts and to urge policies based upon them.

An all-important factor is that agreement is possible up until a specific hour on a particular date, the deadline. No matter how adamant the employer or union may be, it can usually be assumed that each wants to avoid a work stoppage. The strike date thus becomes a working tool for the mediator in seeking a basis for agreement. The parties necessarily feel the hydraulic pressure and are normally more willing to make concessions. The mediator, of course, exploits the deadline, for example, in timing recommendations that earlier might have been unpalatable. Once a stoppage has occurred, an entirely different atmosphere prevails; the parties "wait and see" and he must bide his time rather than use it.<sup>6</sup>

<sup>5</sup> "Public Policy in Labor Relations," *American Economic Review*, May 1946, p. 343. While this procedure has often been used by astute mediators, it has rarely been discussed as a technique in the settlement of disputes. In addition to Leiserson, Professor George W. Taylor has urged that greater attention should be given to it. See, for example, his "Can Wages be Left to Collective Bargaining," *Conference Proceedings, Wage-Price Relationship and the National Welfare*, University of California, Institute of Industrial Relations, 1948, pp. 8-9.

<sup>6</sup> Situations occasionally exist where one or both parties actually want a strike or lockout to occur. It is a commonplace among mediators that it is much easier to settle a dispute before a strike has taken place. U. S. Conciliation Service, *Weekly Newsletter*, Sept. 27, 1946, pp. 144-45.

Another factor assisting the mediator is the public interest, since each party weighs it carefully before taking overt action. In public utility controversies, for example, employers and unions almost invariably recognize that a solution must be achieved without interruption, and often agree to submit their differences to arbitration. Even in controversies having a less direct effect on the public, it is difficult for either side to maintain an unreasonable position once opinion has crystallized against it. Reckless disregard of the public normally has long-run ill effects on the disputant's interests and is therefore found only in exceptional cases.<sup>7</sup>

The mediator has the final function of getting the parties to define the authority of the arbitrator. The latter may be given uninhibited power to render a decision according to standards he selects, so-called "open-end arbitration," or the parties may narrow it within specified limits. Effective mediation, by reducing the area of disagreement, delimits the questions left for the arbitrator to decide. Although neither will welcome the surrender of decision-making power to a third party, they are often willing to do so if the area of disagreement has shrunk. Further, the opposition of some unions and employers to arbitration as a matter of principle can be partially mitigated when the range of the decision has been circumscribed. In some instances mediation is so successful that virtual agreement is reached, the arbitrator's role being merely to help the parties "save face." Assume, by way of illustration, that a union has asked for nine paid holidays in an industry in which prevailing practice is six. In negotiations the company offered four and the union agreed to accept eight. Failing agreement on a more important wage issue, both sides withdrew the proposals on holidays. In "open-end" arbitration the umpire would have authority to award any number of days according to any standards and, without the negotiating background, might render an unreasonable decision. The mediator could reduce the risk by getting the parties to submit only the difference between four and eight holidays to be determined in conformity with practice in the industry.

#### IV

Where the mediator has failed to obtain an agreement, other steps may be more successfully conducted by a different person or persons. Such a procedure has the advantages of introducing fresh personalities and points of view and of providing grounds to postpone strike action. It affords an opportunity to bring in a government representative with greater prestige whose suggestions may be accepted more readily. It serves as further indication to the parties that a stoppage must be avoided and as notice to the public that the government is initiating extraordinary measures. Finally, such a step often produces new and more ingenious proposals.

A procedure frequently used is the appointment of a staff panel of two or three,

<sup>7</sup> Some unions and employers, on the other hand, have frequently disregarded public opinion with apparent impunity, for example, the United Mine Workers, the Musicians, and Montgomery Ward & Co. In these cases policy has reflected the personalities of dominant officials.

usually with the person originally assigned continuing to participate. This has the advantages of maintaining the dignity and morale of the regular staff which has continuing responsibility for industrial peace in the community and of salvaging the knowledge already accumulated. The chairman of the panel becomes the principal mediator, while the other members assist him by suggestions and by testing the parties for indications of changing attitudes.

A special panel of public, management, and labor representatives offers an alternative to staff men or even as a further step when the latter have failed. It has become increasingly popular since World War II in large part due to the National War Labor Board's successful experience. The partisan members can be of invaluable assistance. A management man can talk more frankly with the company than an outsider, and the same is true on the labor side. In addition, they often command invaluable expert knowledge of the industry. When partisan mediators work closely with the chairman, and hence with each other, they ordinarily find common ground for a settlement. The risk is that they will act as advocates of the parties and thereby lead the principals to "dig their feet in." The chairman has the responsibility for preventing this and must, in addition, serve as a balance wheel between his colleagues. They normally carry on discussions alone with the disputants and he acts as the over-all director. The parties may rarely be together in joint conference, the final solution being worked out in separate sessions.<sup>8</sup>

The experience with tripartite mediation, though limited, has been impressive. The National Defense Mediation Board, the agency created to handle labor disputes during the period of rearmament prior to Pearl Harbor, was the first large-scale effort of this type in the United States. Of the 118 cases certified to the board, most of them unusually difficult, 96 were settled and only four required White House intervention. The board achieved this record in large part because it was composed of outstanding labor and industry representatives, as well as spokesmen for the public.<sup>9</sup> This work was carried on by its successor, the National War Labor Board, which, of course, had virtual power to issue orders binding upon the parties, an authority that undoubtedly facilitated its mediation activities. The board, nevertheless, resolved thousands of controversies by negotiations that represented a genuine meeting of minds. Frequently panels achieved agreements and, in effect, merely asked the board to ratify them. "It is our firm conviction," Chairman Lloyd K. Garrison wrote, "that had it not been for this tripartite structure, running up from the grass roots to and including the Board in Washington, the Board could not well have accomplished the formidable tasks assigned to it."<sup>10</sup> The same procedure at the municipal level, in New York and Toledo, for example, has proved similarly successful.<sup>11</sup>

<sup>8</sup> Conciliators often use a modification of this technique in calling upon the assistance of an influential representative of management or labor to give "behind the scenes" help in gaining a difficult point.

<sup>9</sup> Bureau of Labor Statistics, Bulletin No. 714, *Report on the Work of the National Defense Mediation Board, March 19, 1941-January 12, 1942*, pp. 2, 4-5, 8.

<sup>10</sup> 28 War Lab. Rep. x.

<sup>11</sup> "The O'Dwyer Plan for Industrial Peace"; Edward L. Cushman and others, *The "Toledo" Plan*.

Another alternative is to appoint a single special mediator. Although conciliators do not like to be superseded, the assignment of a different person may be the only means of bringing about an agreement. This is often true where negotiations have been long and wearing and a new face and point of view may have a salutary psychological effect on the parties, particularly if the special mediator is a man of outstanding reputation. The traditional second step in the mediation process, in fact, is to assign a higher ranking official in the organization hierarchy; when an impasse has been reached it is customary for the supervising official to step in actively as a mediator. In New York, for example, the executive secretary or a member of the Board of Mediation may enter a deadlocked dispute. In the Federal Mediation and Conciliation Service an assistant regional director, a regional director, or, in a dispute of national importance, an assistant to the director of the agency or even the director himself participates. This agency's predecessor, the U. S. Conciliation Service, long observed this practice. In a case of nation-wide importance the director, the Secretary of Labor, and even the President would intervene in order to avoid a work stoppage. The Taft-Hartley Act carries this a step further in providing that in threatened or actual work stoppages which "imperil the national health or safety" and where a settlement has not been achieved the President shall report the entire matter to the Congress.<sup>12</sup> Congress presumably would attempt its own mediation or enact legislation to deal with the problem.

The use of higher-ranking officials in progressive steps of the mediation process, while having obvious advantages, has certain drawbacks. When the parties know that another mediator will participate they tend to hold back concessions they will eventually make. Moreover, steps in mediation create competition between union leaders, and possibly between company officials, to have their dispute settled at the highest possible level. The more important the mediator the greater is the prestige enveloping the bargaining officials. The apex of achievement, of course, is to sign an agreement in the White House. There is, however, no necessary correlation between administrative position and ability as a mediator. Aside from the prestige of his office, the President may have no qualifications for such activity.<sup>13</sup> For these reasons the U. S. Conciliation Service, upon the recommendation of its Labor-Management Advisory Committee, adopted in 1947 the policy of calling upon experts in private life, men not available for full-time government employment, to serve on particularly difficult and important cases. While named in only about half a dozen disputes prior to passage of the Taft-Hartley Act, there was not a single instance in which they failed to bring about an agreement within a short period.

<sup>12</sup> Public Law 101, 80th Cong., pp. 21-22.

<sup>13</sup> Frances Perkins observes that President Roosevelt "was not a good negotiator in a labor dispute. . . . No President of the United States ought to take part in the detailed negotiation for settlement of labor disputes. . . . The presidential office in our system is far too complex and has far too many responsibilities. It leaves no man free to give his whole mind for days to controversies, sometimes important and sometimes not." *The Roosevelt I Knew*, p. 303.



Special mediators have several advantages over those in an established hierarchy. First, it is possible to appoint men with greater prestige than those on the government payroll, almost without regard to rank. More important, they can be selected with an eye to the issues and personalities of the particular dispute. A man may have special understanding of the industry and may possess the confidence of key individuals. They intervene with the full prestige conveyed by the appointing officer and speak with his authority. They are thus in a position to make use of the whole weight of public opinion. In addition, they usually have some control over timing since they are appointed for a short period with the sole function of resolving a particular dispute. If the parties cooperate with a special mediator they cannot long postpone serious negotiations. Finally, both disputants know that his appointment is a last resort; there is seldom a higher authority to intervene if they fail to reach agreement.

## V

A final step in the mediation process, actually in the frontier zone approaching arbitration, is fact-finding. It rests on a theory of sweet reasonableness, that the facts impartially assessed will themselves dictate a fair and acceptable settlement and that public opinion will place pressure on the recalcitrant party to yield. This procedure, reflecting its borderline classification, takes a variety of forms. It provides for the creation of a board—called fact-finding board, emergency board, or board of inquiry—either *ad hoc* or permanent, normally non-partisan but occasionally tripartite, and with authority to take testimony and make findings, usually but not always with recommendations. The method may be informal and voluntary in that the parties can refuse to participate or give serious consideration to the recommendations. In this form, it is essential to have the agreement of both sides in advance that they will submit evidence and, if possible, give weight to the proposals. On the other hand, many jurisdictions—state, federal, and foreign—have established fact-finding by statute, called “compulsory investigation.” This legislation frequently gives the boards power to subpoena witnesses and documents. It often prohibits strikes and lockouts until the report is submitted and occasionally for an additional “cooling-off” period. The intervention of the government in this manner is conditioned by the assumption that a stoppage of work would imperil the public, and the process therefore is confined to strategic industries. Enforcement of the recommendations relies primarily upon public opinion, although there may be imposed penalties.

During the strike wave following the end of the second world war many came to regard fact-finding as a panacea and President Truman proposed it as a national labor policy. Although the process is useful in limited situations, as pointed out below, its theory is founded upon several fundamental misconceptions. Fact and theory do not have a separate existence and board members inevitably bring to their task points of view that color their decisions. Perspective, as Professor John T. Dunlop has observed, enters in the necessity to choose units of measurement for wages, prices, and profits, in weighing certain facts with greater impor-

tance than others, and in formulating recommendations.<sup>14</sup> One recalls Mark Twain's remark that there are three kinds of falsehoods, lies, damn lies, and statistics. The most difficult cases frequently involve conflicts over principle rather than fact, by way of illustration, opening the employer's books. Even in wage disputes disagreement is likely to be over basic assumptions, for example, whether rates shall be determined by the movement in the cost of living as against comparison with other plants. Where such differences do not exist, labor and management normally reach agreement on arithmetic without assistance. The influence of public opinion seldom conforms with the theory since the press normally gives extended attention to a major dispute and the board's report does not stand out in sharp profile. Further, employers and unions, with greater reserves and continuity of operations, usually are more effective in presenting their viewpoint than is the "one-shot" government agency. Finally, several outstanding leaders are unconcerned about the public's attitude.<sup>15</sup>

These weaknesses are most apparent when fact-finding approaches arbitration and takes a rigid statutory form. When, on the other hand, the process is flexibly administered as an adjunct of mediation it may be effective. The mediator can then carry it in his arsenal of tactical weapons for use in a particular situation. The disputant who insists on saving face or refuses arbitration may accept fact-finding. It must, of course, be confined to important cases since overuse cheapens its value. The board, seeking the settlement of the dispute as its overriding consideration, may mediate itself if that is a means of gaining this objective. A tripartite structure may therefore be desirable, although it is inappropriate in a more judicial procedure. Selection of personnel is of utmost importance since they should combine the arbitrator's expertness and judiciousness with the mediator's ingenuity and flexibility. The method does not lend itself to issues that involve an outright clash of principle or great technicality.

Fact-finding under the Taft-Hartley Act is intimately connected with the entire national emergency procedure, the injunction feature, in fact, being far more important. The result is to put fact-finding into a strait jacket and to dilute its effectiveness. The act is procedurally sound in granting subpoena power, since full access to information is indispensable. The denial of authority to issue recommendations, however, is so serious a defect as to reduce the board's functions to insignificant reporting. The only lever that such an agency can exercise rests in the power to make explicit proposals. With it the board can win the moral respect of the parties and hammer out a settlement or lay the ground for one. Without it labor and management disregard the board except for presenting their respective positions on the record *pro forma*. Public opinion, insofar as it can be influential, must have recommendations about which to crystallize, and in their absence is more impressed with the partisan attitudes.

<sup>14</sup> John T. Dunlop, "Fact-Finding in Labor Disputes," *Proceedings of the Academy of Political Science*, May 1946, pp. 67-68.

<sup>15</sup> Many of these criticisms have been voiced by Dunlop and by Bryce M. Stewart and Walter J. Couper, *Fact Finding in Industrial Disputes*, chaps. III, VI, VII. The latter, in fact, incline to the extreme conclusion that the process has no merit.

One must conclude therefore that fact-finding in the national emergency provision of the act serves no useful purpose.

## VI

It follows from the preceding discussion that the different procedures require varying types of personnel. The individual who is a good conciliator may not be a satisfactory mediator. The effective mediator may not be a good fact-finder unless the fact-finding board functions primarily as a mediation agency. A fine administrator of a mediation agency may lack the qualities needed to settle a dispute.

Father Breen describes the qualifications of a conciliator as impartiality, patience, coolness, resourcefulness, practical psychology, skill in the use of language, and the ability to inspire confidence.<sup>16</sup> It is significant that he omits analytical ability and expertness in labor-management relations since these factors distinguish the mediator from the conciliator. The former must have all the latter's capabilities and, in addition, the intellectual turn of mind needed to diagnose trouble and prescribe remedies. Qualifications for conciliation are basically those of an extrovert personality; no matter how much the parties like the mediator, however, he will fail unless he takes an affirmative part in the negotiations. Hence the mediator should have expert knowledge of contract provisions, labor legislation, wage determination, and related problems. He must also have an understanding of the points of view with respect to management control, union security, and job security. A pleasing personality and good intentions are not enough.<sup>17</sup>

The fact-finder, to an even greater extent, must have analytical ability and expertness. The characteristics needed for conciliation are much less essential in the fact-finder since his function approaches that of the judge. He must be able to weigh arguments and facts and draw a conclusion from a mass of complex data. Where flexible procedures are employed, he should combine the qualifications of the mediator.

## VII

All authorities agree that the form of intervention must vary from case to case since each dispute has its own characteristic profile. There is, however, a school which argues that steps should be prescribed by law or regulation for progressive participation of the government at succeeding levels. Leiserson, the principal proponent of this viewpoint, says,

What is most needed are habits of law and order in settling labor controversies, and these can best be established by orderly procedures provided by a mediation agency with

<sup>16</sup> Vincent I. Breen, *The United States Conciliation Service*, pp. 139-150.

<sup>17</sup> Following the recommendations of President Truman's National Labor-Management Conference of Nov. 1945, it was proposed to raise the salaries of Commissioners of Conciliation in order to draw higher caliber men into the U. S. Conciliation Service. A leading industry member of the Advisory Committee to the Service asked what the Commissioner had to offer to merit these grades. When the qualifications were outlined to him, he responded: "If you find a man who can do all these things, send him to me and I will pay him \$15,000."

appropriate methods for handling different kinds of disputes, and then pressing and exercising the parties in meeting their obligations in connection with the mediation process. . . . Other measures such as voluntary arbitration and what is called fact-finding need to be integrated into the mediation system. They are really a part of it, and they have been much less effective than they might be, because they have been haphazardly used, and their places and functions in the system have been ignored.<sup>18</sup>

This suggests, first, that disputes should be sorted into pigeonholes with a different treatment prescribed for each. It implies further that each case might go through a regular series of procedures from collective bargaining to conciliation, mediation, the urging of voluntary arbitration, fact-finding, and perhaps compulsory arbitration.

There can be no question of the need for a variety of techniques to give every assurance that the strike weapon will first be postponed and then, if possible, averted.<sup>19</sup> Nor can it be denied that the treatment for disputes of rights, as in the case of interpretations of contracts, should differ from procedures for handling controversies over contract terms. To go beyond this, however, to pour techniques into molds to harden, is to lose all the advantages of flexibility. A mediation agency must maximize the elasticity of its policies and procedures.<sup>20</sup> The human element present in all disputes is the primary impediment to hard and fast methods. It is one of the principal reasons why able and constant supervision of a staff of conciliators and mediators cannot be overlooked. As new facets of a controversy develop, supervising officials must be free to suggest varying lines of attack. To have these steps outlined in advance would remove a large part of their effectiveness. Just as the parties rely on surprise tactics, so too must a mediation agency be prepared to move quickly with freedom as to direction and personnel.

#### VIII

The settlement of labor-management differences by procedures limited to mediation is a desirable goal. Few authorities would disagree if these techniques could assure adequate protection to the public against economic warfare.<sup>21</sup>

Given a public policy fostering mediation, its successful operation is within the control of the parties themselves. This requires that labor and management officials manifest respect for the other's "sovereignty." A company policy of union "busting" or even of calculated containment undermines effective mediation. Similarly, revolutionary union policies aiming at the usurpation of man-

<sup>18</sup> William H. Davis and others, *Industrial Disputes and the Public Interest*, p. 49.

<sup>19</sup> Otto S. Beyer, a leading authority, has pointed out that "the major emphasis in any plan should be upon postponing as long as possible the necessity for employing the strike as a weapon to force a settlement." *Washington Post*, May 26, 1945.

<sup>20</sup> The Labor-Management Advisory Committee of the Conciliation Service, for example, recommended that the agency "preserve a maximum of flexibility in its mediation program." U. S. Department of Labor, Press Release, Dec. 16, 1946.

<sup>21</sup> For example, Howard S. Kaltenborn states that "mediation is by far the best and most successful method of governmental intervention in the adjustment of labor disputes." *Governmental Adjustment of Labor Disputes*, p. 3.

agement functions leave little opportunity for successful government intervention.<sup>22</sup> Absence of the will to agree is not in itself proof that the company seeks to rid itself of the union or that the latter has revolutionary purposes. In a free society individuals have the right to adhere to principles if they are prepared to suffer the economic and moral consequences. As long as labor and management lend greater weight to principle than to agreement, however, mediation is likely to fail. In such instances it must pierce the hard shell of attitude before dealing with the issues themselves.

Even where the basic desire for agreement is present, however, other factors may hamper the mediation process. One of the most common is lack of authority on the part of negotiators for either side to make final decisions. On the union side this is related to the sources of power within the organization, to the extent to which its affairs are conducted democratically or dictatorially. The usual pattern is for the leaders to formulate bargaining demands and conduct negotiations. Although the majority of union constitutions require that a contract be submitted to a referendum of the members for approval, ratification is normally a formality. The mediator as a practical matter, therefore, seldom faces the problem of a rejected contract.

Difficulties do occasionally arise, however, the most common being a factional struggle within the leadership. The "outs," making political capital, belabor the "ins" for the agreement they have signed. In the 1946 East Coast maritime dispute, for example, the left-wing within the National Maritime Union severely criticized President Joseph Curran for a modest wage settlement, which the membership then rejected. Occasionally, on the other hand, the leaders feel a genuine need to consult their constituents. The UAW, CIO, demonstrated this in the 1947 Ford negotiations when the committee, unable to decide itself on a wage increase as against a pension plan, submitted the issue to a referendum. Finally, leaders may use the ratification process as a tactic in bargaining. As an example of this, John L. Lewis has often refused to make a concession, arguing that the power to do so resided exclusively in the miners or the Wage Policy Committee, a sophistry deceiving no one. Since leaders are the best authorities on what the membership will "take," the mediator may normally rely on their judgment. He must, however, distinguish between objective and tactic and apprise himself of the internal political situation within the union.<sup>23</sup> Inasmuch as the diffi-

<sup>22</sup> Professor Clark Kerr has acutely observed with regard to the successful bargaining experience in the pulp and paper industry that "one key to industrial peace is the political compatibility of the parties. The private enterprise and the trade union alike are institutions that desire to survive and, if possible, grow. Neither wishes to be destroyed or weakened. Both have the will to live. If either party concludes that the other party threatens its extinction, the basis for cooperative relations disappears. If each party concludes that the other will permit it to exist and perhaps may even help it to succeed, the prospects for peace are favorable." *Factors in Achieving Industrial Harmony*, p. 4.

<sup>23</sup> In a case in which the "out" faction is waiting for announcement of the terms of an agreement in order to attack the "in" negotiating committee, some mediators refuse to divulge information prior to the ratification meeting. By this means the dissident element is denied time to prepare its campaign and the chances of ratification of a hard-won contract are enhanced.

culties of casting a second agreement after rejection of the first are very great, there is an ever present though vaguely defined pressure on the mediator to assure himself that the contract is acceptable both to the leadership and the rank and file.

The incidence of powerless negotiators on the management side is higher, although the problem is simpler. Industry draws lines of authority more sharply, trade-union political relationships are absent, and constitutional provisions for formal ratification do not exist. The management representative without authority is usually a bargaining counter, a tell-tale sign of determination to say "no" or to seek delay.<sup>24</sup> Powerless company officials are at a disadvantage themselves and make the mediator's job doubly difficult. Their bargaining position suffers by having to refer to higher authority because the person issuing directions cannot have a thorough understanding of the proceedings, while the negotiators are deprived of control over timing. Many strike situations have developed merely because the hands of the people at the table were tied in meeting proposals with prompt counter proposals as opportunities arose during negotiations. In this type of situation the mediator must "smoke out" the man who holds the reins. This is best done through a contact in the business community who has the employer's confidence. Such negotiations, of course, must be handled with delicacy since they entail going over the head of the man at the bargaining table.

A further difficulty arises when the negotiators lack understanding of the problems involved in the dispute, particularly where lawyers are employed. Legal training, directed as it is towards formal judicial procedure, often introduces stiffness into mediation and may prejudice its effectiveness. Companies and to a lesser extent unions have used counsel lacking knowledge of the operations to which the contract will apply, with consequent cost to themselves. Few elements are more necessary to successful bargaining than understanding of day-to-day plant operations, including human relationships as well as technical production problems. Where legal questions are at issue, of course, attorneys are necessary advisers on both sides.

Understanding is also essential on the labor side to apprise workers of the effect of new provisions upon their conditions of employment. The mediator should be certain that channels of communication are open from the negotiators to the employees. Wise company officials, for example, want the assurance of membership ratification of a clause before it goes into operation. For this reason union negotiators should understand workers' attitudes rather than impose their decisions on the membership. They must, as well, foresee how provisions are likely to work in practice and the mediator can here share his experience with them.

Another condition for successful mediation is negotiating ability. A negotia-

<sup>24</sup> In interpreting the Wagner Act the NLRB held that an employer negotiating through agents not authorized to reach an agreement was refusing to bargain under Section 8(5). D. O. Bowman, *Public Control of Labor Relations*, p. 81. The Taft-Hartley Act extends the application of this provision to labor organizations as well. Section 8(d), however, declares that the duty to bargain does not "compel either party to agree to a proposal or require the making of a concession." Public Law 101, 80th Cong., p. 8.



tor, of course, is primarily concerned with striking the best bargain for his principals, but he should at the same time try to understand the other side's point of view. No matter how unreasonable or absurd a proposal may seem it should be heard to discover whether it is based on a real grievance. Turning ideas over openly reveals those without merit in their true light. The measure of the negotiator's ability at the conference table, in fact, is based to a considerable extent on his success in establishing an atmosphere of cooperation rather than one of conflict.<sup>25</sup> Negotiating competence also requires ingenuity in making proposals or in wording clauses to avoid questions of future interpretation or possible discord. Where the parties themselves lack these qualities, the mediator should supply them.

In order that governmental intervention may be effective the parties must notify the appropriate agency of the existence of a dispute before positions have had time to harden. Section 8(d) of the Labor-Management Relations Act, in fact, requires in industries affecting commerce that neither side terminate a contract unless it serves written notice on the other 60 days prior to expiration and informs the Mediation Service and the state body within 30 days of that date.<sup>26</sup> Procedures which go further are apt to hinder rather than help collective bargaining and usually lead to an expansion of the role of government. If an agency with power to make final rulings steps in, labor and management surrender their authority. When the penalty is placed on management, as the War Labor Board often did for failure to meet conditions in similar plants in the area, the union sits back and waits for a directive order. Similarly, if sanctions are imposed on unions for striking, as the Taft-Hartley Act provides in national emergencies, management has no inducement to bargain. When public policy is directed against one party, it removes the burden of voluntary decision from the other. It follows, therefore, that a condition for successful mediation is wise and temperate government policy.

## IX

The mediation process, by nature voluntary, cannot serve as a total policy in the settlement of labor disputes. It has a number of inherent limitations that require supplementation, and voluntary arbitration of both contract terms and grievances is an important additional procedure.

These limitations are manifest, first, in the types of controversies to which mediation may be effectively applied. Its achievements are most impressive when the issues involve "interests" rather than "rights," money as against principle. The questions must have a looseness in the joints to be mediable. Disputes over wages, hours, holidays, vacations, and related issues are the meat of mediation, while those over union security and management prerogatives present greater difficulties. Such problems as union recognition, jurisdictional struggles between unions, controversies between government agencies and their employees, and secondary boycotts are normally nonmediable and have cus-

<sup>25</sup> Benjamin M. Selekman, *Labor Relations and Human Relations*, chap. III.

<sup>26</sup> Public Law 101, 80th Cong., p. 8.

tomarily been the subject of legislation. These generalizations, be it noted, are distinguished for their exceptions; effective mediation, for example, has often resolved disputes between government employees and state instrumentalities.

A further limitation arises from the looseness of the process itself. So much depends on subjective factors that slips are inevitable. The failure of a supervisor to detect an incipient source of trouble, for example, may turn out disastrously. Such controllable indirect considerations as professionalization of the trade, that is, requiring mediators to present credentials of study and experience before practice and the supply of statistical and contract information, have not been adequately developed by the agencies. Even if they were, however, they would not insure success; the physician, by analogy, may make a fatal oversight despite prolonged schooling and internship. In a field where human qualities are often determining the fortuitous becomes the commonplace.

The size of the case is a third factor influencing the effectiveness of the process. To the extent that the parties themselves supply the services that the government offers the need for them is reduced, and, on the whole, the larger the company and union the less the need for assistance. Mediation, accordingly, has greatest utility in small and intermediate cases. Fact-finding, of course, is reserved for situations where the public is vitally affected, a factor which may or may not coincide with bigness. Very large corporations and unions—General Motors, Ford, United States Steel, the associated coal operators, the UAW, the Steelworkers, and the Miners—tend to settle their differences in direct negotiations. These aggregates are so powerful that it is virtually impossible to find a mediator with comparable prestige. The stakes are so great that they dislike reposing confidence in an outsider. Since their bargaining positions are normally the result of painstaking conferences, they cannot deal as flexibly as effective mediation demands. Possessing research and technical staffs of their own, there is little that a government representative can offer of information and experience. Mediation therefore is seldom effective or even permitted in such cases.

Finally, the theory upon which the mediation process rests assumes an imperfect world, that disputes between labor and management are characteristic of an industrial civilization, that most can be resolved peacefully, but that some stoppages are inevitable. William H. Davis has noted with perception that,

The creative adventure of the conference table loses all color of reality if the workers have been deprived of their right to reject management's offer and quit, or if management has lost its right to refuse the workers' terms and close the plant. It is, in the last analysis, the pressure of this right to strike or lock-out that keeps the parties at the conference table; that tests their courage, resourcefulness, and decision. . . . In times of emergency . . . those who are not involved in a dispute, the general public, are too prone to think of a strike as an unmitigated evil. . . . But the truth is . . . that the parties are the primary sufferers in a strike or lock-out. . . . They are the ones who pay the bills, and it is particularly the individual wage earner who suffers most, because he is generally the one with the least resources. Because of this truth, the overhanging possibility of a strike or lock-out becomes and always remains the thing that fixes the boundaries of stubbornness in

the bargaining conferences. It is the ever-present limit upon the still, small voice of reason.<sup>27</sup>

The question therefore becomes not how can work stoppages be prevented, but rather how can they be reduced to the indispensable minimum? Conciliation, mediation, and fact-finding have played an honorable role in the resolution of disputes in the past and will continue to do so in the future.

<sup>27</sup> *Labor Fact-Finding Boards Act*, 73d Cong., 1st Sess., Hearings on S. 1661 before Sen. Comm. on Education and Labor (1945-46), p. 117.

## COORDINATION OF FEDERAL AND STATE INCOME TAXES

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The use of the tax on income by both the states and the federal government, and especially the heavy reliance of the latter on this source of revenue, has focused attention on the need for some form of coordination in this field of taxation. Both the states and the federal government have a legal right to tax income, but there is criticism of the overlapping taxation that exists between the federal government and the states and among the individual states. The criticisms of this dual taxation are: the cost of compliance has been increased; tax evasion and avoidance have resulted because of the nonuniformity of state tax laws; the states have resorted to tax competition; the cost of administration has become excessive; and conflicting tax laws have resulted in unequal taxation.

In recent years the tax on income has become the most important single source of federal revenue. In 1947, for example, the tax on personal and corporation income yielded nearly 68 per cent of total federal tax collections, exclusive of payroll taxes.<sup>1</sup> To the states this same year income taxes accounted for about 15 per cent of total tax collections, exclusive of payroll taxes.<sup>2</sup>

The importance of the tax on income to those states which levy such a tax varies. In 1947 the tax on income, both corporate and personal, accounted for 40 per cent of total tax collections in Wisconsin, exclusive of payroll taxes.<sup>3</sup> In Arkansas the percentage was about 8 while in Utah and Kentucky the income tax accounted for approximately 15 per cent of total tax collections.<sup>4</sup> In general the southern states and the states west of the Mississippi received smaller amounts from the tax on income than did the northern states. The tax on income also represented a smaller percentage of total tax collections. Both federal and state income taxes produced a revenue of over \$26,000,000,000 in 1947; of this amount the states received about 3½ per cent while the remainder was taken by the federal government. The states have not developed this field of taxation probably because of the fear of interstate competition and the fact that the federal government has been taking such a large share since 1913.

### I

The states have encountered many problems in the administration of a tax on personal income, one of which is that of determining what income can and should be taxed. Since the enactment of the first modern income tax law the courts

<sup>1</sup> Computed from U. S. Treasury Department, *Annual Report of the Secretary of the Treasury*, pp. 308-10.

<sup>2</sup> Computed from U. S. Bureau of the Census, *Sources of State Tax Revenue in 1947*, p. 2.

<sup>3</sup> *Ibid.*, p. 4.

<sup>4</sup> *Ibid.*, pp. 26, 23.

have allowed the states wide latitude in this matter. It is now well established that the state of domicile of the taxpayer may levy a tax on the taxpayer's income regardless of its source.<sup>5</sup> Such a tax does not violate due process of law even though the income may include rents derived from real estate located in another state. It is also well established that a state which has no jurisdiction over the taxpayer as such has the right to tax all of the income earned within the state whether property, business, or salary.<sup>6</sup>

This matter of jurisdiction has resulted in double taxation in many instances. Income may be taxed by the state of domicile and by the states wherein it originates. Thus, it is possible to tax the same income twice whenever an item of income is received by an individual residing in a state other than that in which the income originates. The Court summed up the matter well when it said in *State Tax Commission of Utah v. Aldrich*<sup>7</sup> that "shares of corporate stock may be taxed at the domicile of the shareholder and also at that of the corporation which the taxing state has created and controls; and income may be taxed both by the state where it was earned and by the state of the recipient's domicile. Protection, benefit and power over the subject matter are not confined to either state."

The states that levy personal income taxes on net income differ considerably in their rules of jurisdiction. Nine states limit the tax generally to income arising within the state. Twenty states tax residents on all their income and also nonresidents on income earned within the state with two exceptions. Arkansas exempts residents' income from real estate located without the state, and in North Dakota the income of residents from personal services performed in another state is exempt if the income in question is taxed by the state in which it is earned.<sup>8</sup> New Hampshire and Tennessee have a tax on intangibles which applies to residents only. Wisconsin levies an income tax on "income earned within the state," while Delaware imposes her levy on residence. Therefore, it would be possible for a person residing in Delaware and owning property in Wisconsin to be taxed twice on the same income. Conversely, if the taxpayer lived in Wisconsin and owned property in Delaware, he would not be required to pay a tax at all upon the income from that property.

Double taxation of incomes may result from the different definitions of the term resident used by the states. Some define a resident as one who spends a certain period of time, usually six or eight months, in the state, while others levy the personal income tax on those who maintain a place of abode within the state.<sup>9</sup> A few states levy the tax only on those domiciled within the state.<sup>10</sup> The use of domicile and the different definitions of the term residence tend to cause the taxpayer to think twice before establishing residence or domicile in a particular

<sup>5</sup> *Maguire v. Trefry*, 253 U. S. 12, 1920 New York ex rel. *Cohn v. Groves*, 300 U. S. 308, 1937.

<sup>6</sup> *Shaffer v. Carter*, 252 U. S. 37, 1920.

<sup>7</sup> 316 U. S. 174, 1942.

<sup>8</sup> G. T. Altman and F. M. Keesling, *Allocation of Income in State Taxation*, pp. 42-43.

<sup>9</sup> F. M. Keesling, "The Problem of Residence in State Taxation of Income," *California Law Review*, Sept. 1941, pp. 719-20.

<sup>10</sup> *Ibid.*

state. In earlier years this was a problem of much concern to the wealthy, but with the lowering of exemptions and the increase in rates this will probably become a problem to many who are not wealthy. It is obvious that if the states which levy a tax on personal income imposed their tax on either residence or origin of income, there would be no possibility for double taxation, assuming, of course, that all states followed the same rules of residence.

Some of the states, recognizing the injustice of multiple taxation due to basing their income tax on different bases, have provided for a tax credit in their income tax laws. Twelve states have a reciprocal crediting device whereby they will credit the tax paid by a nonresident to his own state against his income tax provided the other state reciprocates. Fourteen states have extended credits to residents on the amount of tax that they have paid in other states. It is not a reciprocal credit but has been granted absolutely. This type of credit to residents for their taxes paid in another state means that the state of residence is giving up the right and interest in taxation on a residence basis. It violates the fundamental principle laid down by the Model Tax Plan of the National Tax Association that the state of residence should levy income taxes since it alone provides personal benefits to the taxpayer. It also means a loss of substantial revenue in many cases.

Either method, the reciprocal tax credit or the tax credit to residents, would eliminate the possibility of double taxation of incomes if it were adopted uniformly by all states. The presence of both, however, fails to solve the problem of double taxation of incomes, for it is still possible for some taxpayers not to be subject to a tax on personal income while others are doubly taxed.

There are some who believe that the crest of the reciprocity movement has been reached since in recent years there has not been an expansion of the number of states enacting crediting provisions.<sup>11</sup> Recently, two states have repealed this part of their income tax law. Alabama in 1943 repealed a clause of the income tax law which extended a credit to nonresidents,<sup>12</sup> while New York in 1946 repealed the clause which provided a tax credit to residents of the state.<sup>13</sup> Some of the states have been reluctant to extend a credit to nonresidents, for to do so would result in a loss of taxable income. This is especially true of those states in which there are many nonresidents earning incomes. Conversely, the credit to residents would mean a loss of taxable income to those states in which there are many residents who earn their income in other states.

## II

The states have not been able to solve the problem of double taxation of personal income either by accepting residence or origin as a basis of taxation or by the use of reciprocal credit agreements. The Court also appears ready to wash

<sup>11</sup> W. J. Schultz, "Proposal for a New Type of State Personal Income Tax Reciprocal Credit Clause," *Bulletin*, National Tax Association, Dec. 1943, p. 79.

<sup>12</sup> *Significant Changes in State Personal Income Tax Laws*, Federation of Tax Administrators, p. 5.

<sup>13</sup> *State Income Taxes*, Federation of Tax Administrators, Research Report No. 18, p. 13.



its hands of the problem. The question of what can be done about the matter, therefore, is a pressing one. The belief is becoming more prevalent that something should be done about double taxation and that the federal government will be forced to take the initiative. Some believe that the federal government has so many administrative advantages that the administration of the income tax should be centralized more and more in its hands.

It is true that the federal government has some advantages in the administration of the tax on personal income. Since income is a wide base, the broader tax jurisdiction of the federal government can best administer the tax. Today the income of the taxpayer, especially the larger income, does not respect state lines nor does the income arise within the jurisdiction within which he happens to live. Incomes due to economic forces over which the states have no control have become national and even international in character. A taxpayer may live in one state and receive income from property located in another and income from investments in still another or from business which derives its income from several states. Income along with transfer of property are probably our most mobile tax bases. This mobility varies inversely with the size of the jurisdiction levying the tax. Because of the large "taxable" area covered by the federal government it would be least affected by this factor of mobility. Mobility weakens income as a tax base for states. Both individuals and corporations are mobile, and it is possible for them to move to that jurisdiction which taxes the lightest.

The tax on income is one of the most important taxes through which governments can exert influence on the business cycle. It can be manipulated in such a way (rates, progression, exemption, etc.) as to influence control over consumption, savings, investment, employment, and the price level. Assuming that control of the economy by use of the taxing power is desirable, it is obvious that control can best be effected on a nation-wide scale rather than depending upon several governments to present a unified plan.

One of the objections to both the federal government's and the states' levying a tax on personal income is that it results in dual administration. This results in taxpayer inconvenience and higher compliance and administrative costs than if one government were responsible for the administration. It is true that it would be more convenient for the taxpayer to make one report than two as he is required to do in those states which have a tax on personal income. The cost of compliance and administration would also be reduced. In 1941 the cost of administering the federal tax on personal income was estimated by the United States Department of Revenue to be \$1.68 per \$100 collected.<sup>14</sup> Professor James W. Martin in 1941 made a study of the cost of administering several state taxes. His study revealed that the cost of administering the state tax on personal income for 1941 was \$1.50 per \$100 collected.<sup>15</sup> His study of costs, however, took into consideration only those costs incurred by the central tax administrative agency and did not include those incurred by other state and local offices

<sup>14</sup> J. W. Martin, "Cost of Tax Administration, Statistics of Public Expenses," *Bulletin*, National Tax Association, Vol. 29, No. 5, pp. 134-37.

<sup>15</sup> *Ibid.*

in some states. It is very difficult to secure the cost of administering the tax on personal income in the states because the tax is frequently administered in conjunction with other taxes, and the costs cannot always be separated. Usually both personal and corporation income taxes are administered together.

It is impossible to determine the efficiency of the administration of either the federal government or the states from the cost figures available since the two sets of figures are not comparable. The cost of administering the tax on personal income is relatively low in some states because the yield from the tax is relatively high, and it is relatively high where the yield is relatively low. If the states had the same rates and exemptions as the federal government, the costs of administering the tax might be approximately the same. It is also worthless to compare the cost of processing returns of the various states with those of the federal government in an effort to ascertain which government is the most efficient. The federal government deals with larger returns which require a longer period of processing and thus involve more expense. Some states, on the other hand, have few returns above \$50,000.

Another point in favor of centralized administration is the fact that the federal government enjoys greater immunity to taxpayer pressure. This is due to the fact that the Bureau of Internal Revenue is further removed from taxpayer influence, and it can more easily disregard pressure exerted by persons of political or financial position and can thus achieve greater impartiality. As pointed out by one state administrator, "For some unknown reason . . . individuals apparently believe that it is a more serious matter to make false reports to the federal government than to the states."<sup>16</sup> More adequate appropriations by the federal government have resulted in higher salary scales, which tend to attract a more competent staff. In very few states does the personnel compare favorably either in size or qualifications. The greater division of labor that is also possible in the Bureau of Internal Revenue is responsible for a higher degree of expertness in the technical task of income taxation.

### III

The determination of that part of income derived from a business conducted in more than one state which may and should be taxed is the main problem in connection with state taxation of corporation income. The problem has arisen as a result of our industrial organization. It was not encountered as long as business was purely a matter of intrastate concern, but since the activities of many corporations have been extended beyond state lines the problem becomes more complicated.

The domicile of a corporation is in the state of incorporation, and there it may be taxed on its entire net income wherever earned.<sup>17</sup> The state is not required to apportion this income since it is not within the constitutional requirement of due process of law. Apportionment of income of the domestic corporation is a

<sup>16</sup> D. L. Pierce, "The Use by State Authorities of Federal Income Tax Returns," *Taxes*, Vol. 17, No. 11, p. 640.

<sup>17</sup> *Cream of Wheat Co. v. County of Grand Forks*, 253 U. S. 325, 1920.

matter of economic policy, however, since not to do so would result in unfair taxation if other states in which the corporation conducted business also taxed it on the amount of income earned there. A state may tax the net income of a foreign corporation conducting an interstate business but only on that portion of income arising within the taxing state.<sup>18</sup>

In an effort to allocate this income the states have employed two methods, namely, the so-called "separate accounting" and the "formula" methods. Both methods strive to accomplish the same thing, i.e., to apportion the income of the business among the states so that each may tax a proper share of the whole but no more. The problem is that of dividing the income on the basis of the relative contributions of the several states involved in the creation of that income.

There is a great lack of uniformity among the states as far as uniform practices of allocation of corporate income are concerned. Some states specify in their laws the type of allocation formula that may be used or whether separate accounting is permitted. Many of the states leave this to the discretion of the officer or commission that administers the tax. In many instances a different formula is used for manufacturing concerns than for nonmanufacturing business.

In 1939 the Committee on Allocation of the National Tax Association found the use of 16 different types of formulas among the various states. It is apparent from the information gathered by this committee that there is a lack of uniformity among the states in regard to allocation formulas. The formulas used for the most part have been developed to take advantage of the dominant activity of the corporations in each particular state. If manufacturing is the predominant activity in the taxing state, an allocation formula that will reflect that activity will be selected. If it is sales, then a sales formula will be used. Comparatively little attention has been given by any one state to the formulas used by the others. As a consequence taxpayers doing business in a number of states are confronted with not only high compliance costs but also with the possibility of double taxation.

Several committees of the National Tax Association since 1922 have made special studies of the allocation problem.<sup>19</sup> The 1922 Committee recognized the importance of the problem when it said: "All methods of apportionment of trading profits are arbitrary . . . in the cutting of the Gordian knot . . . there is no one right rule of apportionment, notwithstanding that there probably are a number of different rules, all of which may work substantial justice. For the present purposes the only right rule of procedure is a rule on which several states can and will get together as a matter of comity."<sup>20</sup> In the 1939 report the committee recommended that the states permit the use of separate accounting by those businesses that maintain accurate accounting systems since it believed this method to be the fairest of all if correctly and properly maintained and should be encouraged. The committee believed that with the passage of time there will be

<sup>18</sup> *Underwood Typewriter Co. v. Chamberlain*, 254 U. S. 113, 1920.

<sup>19</sup> 1922, 1933, 1938, 1939, 1941.

<sup>20</sup> "Report of the Committee on the Apportionment between States of Taxes on Mercantile and Manufacturing Business," *Proceedings*, National Tax Association, 1922, pp. 201-2.

improvements in accounting principles and techniques so that more taxpayers would be in a position to use the separate accounting method. The use of mathematical formulas was admitted to be arbitrary and that no one rule would be equitable for all, but in the absence of a more accurate method it is a practical way of dealing with the problem.<sup>21</sup> The committee recommended the use of the Massachusetts formula for apportioning that portion of income of manufacturing and mercantile establishments that cannot be allocated by the separate accounting method.<sup>22</sup>

Assuming that a uniform method were adopted by the states, there would still be the problems of dual administration and high compliance costs. In 1941 the cost of administering the federal tax on corporation income as estimated by the Department of Internal Revenue was 71 cents per \$100 collected.<sup>23</sup> There are no cost figures available for the cost of administering the various state taxes on corporation income since the same department that administers the tax on personal income usually administers the tax on corporation income. It seems logical, however, that the state cost of administration would be higher since the allocation procedure tends to be a complicated process and requires checking and rechecking of reports. If separate accounting is used, several highly qualified accountants would be necessary to determine the amount of the tax. The cost of compliance would also be higher since many concerns conduct business in several states which levy a tax on corporation income.

Most of the states would probably welcome uniformity but would take the position that it should be attained by the process of amending other state laws to conform with theirs. Even though willing to cooperate to some extent, the states would insist on substantial modifications which would defeat the purpose of the plan. Thus, it seems that if uniformity is to be obtained some far more practical method than endeavoring to persuade the states to adopt a uniform method of allocating corporate income must be found.

#### IV

As a solution to the problems arising from conflicting taxation, some forms of coordination between the federal government and the states have been recommended at various times by leaders in the field of public finance. The reforms proposed have been separation of revenue sources, shared taxes, tax credits, and supplements. Separation of revenue sources implies that certain fields of taxation would be delegated to either the federal government or to the states. The government which is least qualified to administer a particular tax would withdraw from the field. A shared tax is one that is administered by a single government and part of the proceeds shared with another. The amount could either be a lump sum or a fixed percentage of the amount collected. The use of a credit

<sup>21</sup> "Report of the Committee of the National Tax Association on Allocation of Income," *Proceedings*, National Tax Association, 1939, p. 204.

<sup>22</sup> The Massachusetts formula gives equal weight to three factors, namely, tangible property, payrolls, and sales.

<sup>23</sup> Martin, *op. cit.*, p. 132.

implies that both the federal government and the states would levy the same tax but that the former would credit a certain amount of the tax to the latter. In this way the taxpayer would pay the same amount, but a portion would go to the states if they enacted a similar tax, if not, the total tax would be collected by the federal government. The use of supplements is a system of additional tax rates superimposed by one government on the tax rates of another. The government best qualified to levy the tax would be charged with the administration while the other would add rates commensurate with its revenue needs.

## V

Separation may be one of two types. One is complete withdrawal while the other would be a division of the income tax base between the federal government and the states. The federal government would be guaranteed the upper part while the states would be free to develop the lower part of the income tax scale. This could be accomplished by a federal exemption at a level of, say \$3,000 for individuals and \$100,000 for corporations. This method would be unrealistic since it fails to solve the problems of double taxation and dual administration and tends to hamstring the federal government by creating rigidity in its income tax structure while intensifying fluctuations of yield. There is also no guarantee that the states would exploit their share of the income scale, which would result in the same problems as before.

Complete separation, with delegation of the income tax to the federal government, would solve the problem of double taxation which arises because of jurisdictional conflicts among the states. If complete separation were attained, those engaged in interstate commerce would be placed on the same basis as those engaged in intrastate undertakings. This is the strongest argument for separation of sources. There is general agreement today that income represents one of the best measurements of ability to pay and that the theory of the progressive tax is to equalize the burden of taxation by imposing higher rates on incomes in the higher brackets. This has hardly been accomplished by the states because of the different bases on which the personal income tax has been levied and also due to the fact that some states do not have a tax on income. A taxpayer who derives all of his income in a state which levies an income tax is required today to pay a higher tax than another who resides in the same state but who derives his income from several states. The taxpayer who derives his income from several states would pay a lower rate on each share of his income, which results in a lower aggregate tax than on the single sum. This obviously violates the concept of progressive taxation. By turning over the income tax to the federal government this problem would be solved since the rate would be uniform and the same rules would apply to all income receivers, irrespective of state lines.

Separation would result in lower compliance costs since individuals and corporations would be making only one return. The costs resulting from dual administration would also be eliminated. The possibility of individuals and corporations moving from one state to another in order to pay lower taxes would not be possible. Double taxation of corporation income would be eliminated, and no corporation would be taxed on more than 100 per cent of its income.

The delegation of the tax on income to the federal government for its exclusive use raises the very important question of whether the states could afford to lose this source of revenue. In 1947, for example, the states derived about 15 per cent of their revenue from the individual and corporation income taxes. Denying this source of revenue would be a great blow to a few states. Exclusive of payroll taxes New York and Wisconsin received nearly 40 per cent of their revenue from this source last year while North Carolina and California received approximately 31 and 19 per cent respectively.<sup>24</sup> The states would be denied a flexible source of revenue, and elasticity of revenue is one of the accepted criteria of a good fiscal system. Since income represents one of the best measurements of ability to pay and the theory of the progressive tax is to equalize the burdens of taxation by imposing higher rates on incomes in the higher brackets, it seems proper that the states should make greater use of the tax on income than of some of the more regressive taxes that are used at the present time.

## VI

Since the enactment of the crediting provision in the estate tax, the belief that a similar type of credit should be adopted in the field of income taxation has received some support. It is expected that the use of the crediting device would bring about a certain amount of uniformity among the various state income tax laws and thereby reduce tax competition among the states. It is true that uniformity would be encouraged, but a tax credit would not guarantee uniformity. The states would still be free to enact tax rates in excess of the federal credit if they needed additional revenue. For the credit to operate successfully there would have to be uniform rules concerning definition of income, exemptions, deductions, and the very important question of whether states should levy the personal income tax on the basis of residence, origin, or a combination of the two. It would be easier for the tax to be levied on the basis of residence, but the states which have many nonresidents who earn income within their borders would probably oppose this plan.

It is doubtful if this program would be practical in the field of corporation income taxation since there are many variations among the states in regard to this field of taxation. As a result it would probably be impossible to arrive at a set of rules that would be acceptable to all of the states. The federal government could establish rules of taxation including the use of a uniform method of apportioning income for purposes of taxation before the credit would be allowed. In this manner the practice of taxing a corporation on more than 100 per cent of its income would be eliminated. Since the states have not accepted a uniform method of allocating corporation income, it is doubtful that they would accept such a program. If the crediting program did not contain this element of uniformity, it is doubtful that any advantage would result from its use.

The type of credit granted would raise a problem. A uniform or a graduated credit might be adopted. A uniform credit would be one which allowed a certain percentage of the tax paid in a given state to be credited to the state, i.e., 2, 3, or

<sup>24</sup> Computed from U. S. Bureau of the Census, *Sources of State Tax Revenue in 1947*.



5 per cent or some such figure. This type of credit would work to the advantage of the more wealthy states since a large per cent of the wealth and income is concentrated there. A graduated credit, on the other hand, i.e., allowing the states a certain percentage on returns of \$5,000 or less and a smaller percentage on returns between \$5,000 and \$10,000 and an even smaller percentage above that amount or some such arbitrary figure would work to the advantage of the less wealthy states. This is true because of the fact that the less wealthy states have relatively few large returns. Thus, it would seem that the extremely wide variations in the distribution of wealth and incomes would make it virtually impossible for any method of crediting to fit the needs of the states.

The use of the credit in the taxation of income would encourage all of the states to enact income taxes. The possibility of securing additional revenue without increasing the taxpayer's burden would tend to induce the states to enact such a tax in conformity with the federal credit. It may not be advisable for every state to have an income tax. Some of the sparsely settled agricultural states would derive very little revenue from such a tax, yet the opportunity afforded by the federal credit would induce them to levy the tax and organize the necessary administrative machinery. Some of the less wealthy states probably could not afford to support the centralized machinery which is necessary to administer efficiently an income tax. Many states would, moreover, be encouraged to levy income taxes on the smaller incomes in order to get as much of the credit as possible. To some extent this policy is desirable, but to the extent that the incomes are too small to warrant practical administration the policy is very unwise.

## VII

The use of supplements has sometimes been recommended as a method that might be used by the states and the federal government in the taxation of personal income. If such were adopted, the federal government would be the collecting agency, but the states would have the privilege of adding supplements or additions of their own to the federal levy. The states would merely ask the Bureau of Internal Revenue to collect a certain percentage from different brackets of income while collecting the tax for the federal government. The individual taxpayer would only be required to make one return, and the federal government would automatically turn over to the states the proceeds of the supplementary rates.

One of the main advantages, according to advocates of such a system, would be economy of administration since only one return and one administrative agency would be required. There would be no element of compulsion in this method. The states would also be free to change their rates at any time and in this way maintain a certain amount of elasticity in their fiscal system.

The use of supplements, however, would raise some questions. In the taxation of personal income the question of whether the tax should be imposed on origin, residence, or both would still be present. It would be much more simple for the federal government to collect if all the states would agree on residence, but with

additional expense and trouble it could follow any basis suggested by the states. If such be the case, however, the problem of double taxation would not be solved. Tax competition among the states would still be possible since the states could have different rates and exemptions.

The use of supplements in the taxation of corporation income would result in the allocation of income among the states by the federal government for purposes of taxation. The success of this arrangement would depend on the allocation formula or formulas used. If all the states which levy a tax on corporation income would agree on a uniform formula for the allocation of income, this arrangement would have some advantages over the present method of taxation.

The uniform formula would result in no corporation being taxed on more than 100 per cent of its income, which is now possible because of the different formulas in use by the states. The cost of collecting the tax would probably be less than the amount now expended for collecting both federal and state taxes on corporation income. Finally, the cost of compliance would be reduced since only one report would be required from each corporation. This plan would result in what the National Tax Association has been recommending for several years. It is doubtful that the states would agree to such an arrangement, however, since they have thus far refused to accept a uniform formula recommended by the National Tax Association.

If the states did not agree on a uniform method of allocating income and the federal government were charged with the administration of the many different state laws, it is doubtful that this plan would be any improvement over the present method of taxation. The application of the many different formulas would probably result in an increased cost of administration and such an arrangement would still result in the possibility of a corporation being taxed on more than 100 per cent of its income.

#### VIII

Federal collection and state sharing has received much support as a solution to the problems involved in the taxation of income. Professor Seligman as early as 1911 pointed out the advantages of federal administration and recommended that the federal government collect the tax and share part of the proceeds with the states.<sup>25</sup> He pointed out the fact that a state administered income tax was superior to one administered by a local government and asked the question "cannot the argument be carried a step further, so as to result in the conclusion that a federal income tax would be still better than a state income tax, because of the still greater widening of the base?"<sup>26</sup> It is true that the trend toward centralized control in income tax administration becomes unmistakable if a 30- or 40-year period is surveyed. It was, in fact, the introduction of strong centralized supervision by Wisconsin in 1911 and its subsequent adoption by other states that paved the way for successful state use of this source of revenue.

The arguments for federal collection and state sharing are the same as those for

<sup>25</sup> E. R. A. Seligman, *The Income Tax*, p. 656.

<sup>26</sup> *Ibid.*, p. 645.

separation of sources. It would avoid the problem of jurisdictional conflicts, dual administration would be eliminated, and compliance costs would be lessened. Since all incomes would be taxed at a uniform rate, the possibility of tax competition among the states would be removed. No longer would a corporation be taxed on more or less than its total income for any given year. The sharing proposal has an advantage over complete separation in that the states would still receive revenue from this source. There is also a precedent for sharing since many states have for several years shared a part of the revenue collected with local units of government.

One of the problems raised by any sharing program is that of determining a just and satisfactory basis of distribution. If the personal income tax were shared on the basis of residence or domicile the states of origin would certainly object. The states in which there is much absentee ownership would be denied a large amount of revenue. Property tax assessments would not be an equitable basis of distribution because of the inequality that exists in such assessments throughout the country. It would be unfair to share the corporation income tax on the basis of domicile since the income of corporations arises from all the states in which business is conducted. The use of a formula similar to one of those used by the states at the present time would not result in an equitable distribution since none of the formulas is capable of measuring all the factors that give rise to corporate income. Population would probably be objected to on the ground that it does not necessarily reflect a state's contribution to the national income.

The amount to be distributed among the states might be shared on the basis of some indicator of business activity. An argument could be presented for the use of such a basis on the ground that incomes are a result of business activity, if one defines the term broadly as any activity that results in realized income. Income Payments to the States as collected by the United States Department of Commerce seems to be the best single indicator that we have of business activity at the present time. Income payments include wages and salaries, in fact, all income receipts of individuals regardless of whether they arise out of current production or not. This means that such income receipts as relief payments, workmen's compensation, old-age pensions, and similar transfer payments are included. Income payments do not include undistributed corporate earnings.<sup>27</sup>

Income payments are certainly not a perfect measurement of business activity since they include payments that do not arise out of current production. This criticism would be very important in periods of depression when many people might be receiving aid of one kind or another in the form of relief payments and social security benefits.

Table I shows the amounts the states would receive if 1940 state revenue from the tax on personal income were shared on the basis of income payments. Six states would lose if this method of sharing were in effect. In three of the six states that would stand to lose, the loss would be only a few thousand dollars. Massachusetts and New York would lose the most. Arkansas and New Mexico

<sup>27</sup> P. M. Houser and W. R. Leonard, *Government Statistics for Business Use*, p. 33.

would be the big gainers under this method of sharing. Arkansas would have received a little more than six times as much as was received in 1940 while New

TABLE I

*Amount Received by the States if the Tax on Personal Income Were Collected by the Federal Government and Shared on the Basis of Income Payments*  
(In thousands)

STATE	PERSONAL INCOME TAX REVENUE IN 1940 <sup>a</sup>	PERCENTAGE OF TOTAL IN- COME PAY- MENTS, 1940 <sup>b</sup>	IF 1940 REVENUE SHARED	IF \$250,000 SHARED	IF \$500,000 SHARED
Ala.....	\$ 1,348	0.99	\$ 3,850	\$ 4,670	\$ 9,340
Ariz.....	462	0.31	1,210	1,460	2,920
Ark.....	389	0.66	2,570	3,110	6,220
Calif.....	19,570	7.32	28,470	34,550	69,100
Colo.....	2,074	0.78	3,030	3,680	7,360
Del.....	1,654	0.32	1,240	1,510	3,020
Ga.....	2,501	1.30	5,060	6,140	12,280
Idaho.....	704	0.30	1,170	1,420	2,840
Iowa.....	3,902	1.62	6,300	7,650	15,300
Kans.....	1,315	1.00	3,890	4,720	9,440
Ky.....	2,345	1.17	4,550	5,520	11,040
La.....	2,568	1.13	4,390	5,330	10,660
Md.....	6,245	1.58	6,140	7,460	14,920
Mass.....	20,291	4.36	16,960	20,580	41,160
Minn.....	6,685	1.88	7,310	8,870	17,740
Miss.....	802	0.59	2,290	2,780	5,560
Mont.....	543	0.43	1,670	2,030	4,060
N. H.....	562	0.36	1,400	1,700	3,400
N. M.....	215	0.25	970	1,180	2,360
N. Y.....	105,743	15.74	61,210	74,290	148,580
N. C.....	3,279	1.50	5,830	7,080	14,160
N. D.....	309	0.31	1,200	1,460	2,920
Okla.....	2,403	1.10	4,280	5,190	10,380
Oreg.....	3,775	0.83	3,230	3,920	7,840
S. C.....	1,427	0.72	2,800	3,400	6,800
Tenn.....	1,653	1.22	4,740	5,760	11,520
Utah.....	795	0.35	1,360	1,650	3,300
Vt.....	618	0.24	930	1,130	2,260
Va.....	1,943	1.45	5,640	6,840	13,620
W. Va.....	1,596	1.02	3,970	4,810	9,620
Wis.....	8,253	2.14	8,320	10,100	20,200
	205,979	52.97	205,980	249,990	499,980

<sup>a</sup> U. S. Bureau of the Census, *Financial Statistics of States*, 1940.

<sup>b</sup> Computed from U. S. Department of Commerce, *Survey of Current Business*, June 1943, pp. 21-22.

Mexico's gain would have been four and one-half times as much. If \$250,000,000 had been shared in 1940 on the basis of income payments, New York would still have received about \$31,000,000 less than was received in 1940 while Delaware's loss would have been \$144,000. All the states would have received more than

TABLE II

*Amount Received by the States if the Tax on Corporation Income Were Collected by the Federal Government and Shared on the Basis of Income Payments  
(In thousands)*

STATE	CORP. INCOME TAX REVENUE IN 1940 <sup>a</sup>	PERCENTAGE OF TOTAL IN- COME PAY- MENTS, 1940 <sup>b</sup>	IF 1940 REVENUE SHARED	IF \$200,000 SHARED	IF \$400,000 SHARED
Ala.....	\$ 1,322	0.99	\$ 2,390	\$ 3,080	\$ 6,160
Ariz.....	856	0.31	750	970	1,940
Ark.....	334	0.66	1,600	2,050	4,100
Calif.....	20,594	7.32	17,710	22,790	45,580
Colo.....	1,035	0.78	1,890	2,430	4,860
Conn.....	3,567	1.88	4,550	5,850	11,700
Ga.....	3,167	1.30	3,140	4,050	8,100
Idaho.....	1,043	0.30	730	930	1,860
Iowa.....	905	1.62	3,920	5,040	10,080
Kans.....	754	1.00	2,420	3,110	6,220
Ky.....	1,952	1.17	2,830	3,640	7,280
La.....	3,114	1.13	2,730	3,520	7,040
Md.....	1,392	1.58	3,820	4,920	9,840
Mass.....	4,141	4.36	10,550	13,570	27,140
Minn.....	4,380	1.88	4,350	5,850	11,700
Miss.....	993	0.59	1,430	1,840	3,680
Mo.....	6,945	2.52	6,100	7,850	15,700
Mont.....	688	0.43	1,040	1,340	2,680
N. M.....	220	0.25	610	780	1,560
N. Y.....	42,631*	15.74	38,080	49,000	98,000
N. C.....	8,655	1.50	3,630	4,670	9,340
N. D.....	281	0.31	750	970	1,940
Okla.....	3,840	1.10	2,660	3,420	6,840
Oreg.....	1,712	0.83	2,010	2,580	5,160
Pa.....	23,777	8.25	19,960	25,680	51,360
S. C.....	2,076	0.72	1,740	2,240	4,480
S. D.....	705	0.32	770	1,000	2,000
Tenn.....	1,813	1.22	2,950	3,800	7,600
Utah.....	881	0.35	850	1,090	2,180
Vt.....	187	0.24	580	750	1,500
Va.....	2,690	1.45	3,510	4,510	9,020
Wis.....	8,741	2.14	5,180	6,660	13,320
	155,931	64.24	155,230	199,980	399,960

\* Includes revenue from unincorporated business tax.

<sup>a</sup> U. S. Bureau of the Census, *Financial Statistics of States, 1940*.

<sup>b</sup> Computed from U. S. Department of Commerce, *Survey of Current Business*, June 1943, pp. 21-22.

they collected in 1940 if the federal government had shared \$500,000,000 the same year.

If the corporation income tax had been shared on this basis in 1940, the results would have been those found in Table II. If 1940 revenue had been shared, 14 states would have received less than they did in that year while the remaining 18

would have gained. On the basis of income payments New York would have received approximately the same amount as was collected in 1940 after the revenue from the unincorporated business tax had been subtracted from the \$42,000,000 revenue figure. California, Pennsylvania, and Wisconsin would lose most under this arrangement while Arkansas, New Mexico, Iowa, North Dakota, Kansas, Vermont, and Massachusetts would gain most. If \$200,000,000 had been shared only four states would have lost revenue. Wisconsin and North Carolina would have lost approximately \$4,000,000 each while Idaho and Oklahoma's losses would have been less than \$500,000 each.

It is obvious from the tables presented that sharing on the basis of income payments is not perfect in the sense that each state would receive an amount equal to or more than it collected in 1940. New York and Delaware would probably object to the method of distribution while those states with less developed income taxes would probably welcome a sharing program. Thus the possibility of finding a basis of sharing which would satisfy all the states is rather remote, but of all the methods mentioned it seems that sharing on the basis of income payments is probably the most equitable and just.

The amount to be distributed would also raise a problem. A shared tax is usually thought of as being apportioned according to some fixed percentage of the yield of a particular tax, but it would not necessarily have to be. It could either be a fixed percentage of 2, 5, or 10 per cent or a lump sum of \$250,000,000, \$500,000,000, or some such figure. If the latter method of apportionment were used, it would take from the states one of their flexible sources of income and at the same time work a hardship on the federal government in times of depression since the amount would be guaranteed. Many leaders in the field of public finance believe that the tax on income in the states should carry a larger part of the tax burden than it is now doing.

#### IX

Of the coordinating devices studied federal collection and state sharing seems to be the best solution to the problems involved in the taxation of income. Such a program would result in the elimination of double taxation. The cost of administration would be reduced as well as the cost of compliance, and tax competition among the states would no longer be a problem. Since income seems to be a result of business activity, it would probably be best to share the proceeds of the tax on income with the states on the basis of income payments. It must be admitted that the adoption of such a program would not be an easy task. The fiscal systems of the federal government and the states would probably be disturbed for a short time, but any degree of reorganization of the federal and state fiscal systems must be evaluated in terms of the long run. The possible use of any coordinating devices requires some willingness on the part of both the federal government and the states to compromise and view our dual system of government as a unit rather than as two distinct, independent, and conflicting governments. To make the system less complicated, more efficient, and more productive will require sincere cooperation among federal and state officials and the public.



## BOOK REVIEWS

*The Economics of John Maynard Keynes.* By Dudley Dillard. New York: Prentice-Hall, 1948. Pp. xi, 364. \$3.75.

Dr. Dillard has produced a clear, readable, well-organized volume which will undoubtedly have a wide appeal. He explains the essential anatomy of certain portions of the Keynesian analysis in a series of excellent summaries. His chart of the Keynesian system on page 49 is especially commendable, and the reader can follow the argument from beginning to end with rather less effort than in most treatments.

Despite these good points, the book is fundamentally disappointing and may, in the last analysis, fortify popular misunderstandings. The mistakes, though often subtle, are both numerous and important. It seems a pity that there should not be available a sufficiently popular book on Keynes which would be at once good Keynesianism and good economics. The writer believes, of course, that the two expressions are synonymous if properly understood. But he does not feel that the present volume, despite many subordinate merits, gives that understanding.

Dillard's book will inevitably be compared with Dr. Laurence Klein's *Keynesian Revolution*. Indeed there is a considerable resemblance between the two both in background and outlook. Both authors were students at the University of California (Berkeley) where Dillard (certainly) and Klein (this reviewer believes) were strongly influenced by the late Professor Leo Rogin. Rogin's fundamentally Marxist analysis appears to have left an indelible impression.

This is not, of course, meant to imply that either Klein or Dillard is a Marxist, or that they try to show Keynes the man as a Marxist. But they do attempt to assimilate the framework of the *General Theory*, in greater or less degree, with the analysis of *Das Kapital*. Both books as a result tend to leave a certain residual impression that, in ultimate technical analysis, Lord Keynes was, in spite of himself, a sort of Karl Marx, Jr.

Such a metamorphosis can be managed with deceptive ease, provided only one leaves out the right portions of Keynes.<sup>1</sup> One need only postulate that the maximum size of the usable capital stock is rigidly linked to the level of consumption. Under such a condition a flow of net new investment progressively exhausts the pile of "outlets" or "opportunities." The marginal efficiency of capital will fall until it goes below the minimum interest rate set by "liquidity preference." Without an offsetting rise in consumption, general unemployment begins and society experiences (*ceteris paribus*) a level of unemployment equilibrium calculated from the "multiplier." The rate of interest on money becomes, in Dillard's language "a kind of institutional monopoly which leads to an artificial scarcity of capital assets" (p. 194).

<sup>1</sup> The writer has shown in his "Future of Keynesian Economics," *American Economic Review*, June 1945, that Keynes does, especially in the last chapter of the *General Theory*, use some very inconsistent language. But as there explained it would seem that on balance, if Keynes had a theory of secular stagnation, it was probably closer to Schumpeter's than Hansen's—i.e., major emphasis would have been on contemporary ideology.

But there are at least two major defects in this analysis. In the first place, the long-run average propensity to consume seems to rise spontaneously. It is interesting that both Klein and Dillard omit this—the work of Kuznets, Fellner, and Samuelson being completely ignored. In the second place, the assumption of a fixed “pile” of investment outlets (and hence of a definite schedule of investment demand) is not empirically correct except instantaneously. As soon as one shifts emphasis from fixed schedules of investment yield to rates of social change and innovation entirely different results may follow.

Dillard, less dogmatic than Klein, seems to imply this but in a curiously awkward fashion. “The classical theory in which the marginal efficiency of capital sets the pace to which the rate of interest is supposed to adjust,” he writes (p. 199), “is determinate only if the *level of income* is supposed to be given in order that the marginal efficiency can be found independently” (*italics added*). This is true only as tautology and is in any event misleading. The essential requirement is a rate of “planned” or “attempted” change and/or expansion consistently greater than the rate of voluntary saving at full employment so as to create a consistent scarcity premium. True the rate of introduction of new techniques, etc., may not be sufficient, relative to the propensity to consume. But we have then to ask “Why?” And one winds up considering matters of short-run versus long-run creativity, socio-political atmosphere, and so on. The beautiful pristine simplicity has vanished. Dillard says (pp. 199, 200) that in a world of unemployment there are not enough data to make the system solvable: “The classical theory is one equation short.” But he does not stop to point out that the missing term (adequate investment incentives) may be quite as much the result of bad policy (often of “Keynesian” antecedents) as of “excessive” saving.

Keynes, to be sure, knew all this well enough. It must be remembered that he explicitly excluded technical change from his basic analysis in the *General Theory*.<sup>2</sup> This, too, Klein and Dillard omit to point out. However, Dillard’s treatment of the inducement to invest is considerably more accurate than Klein’s—largely because, like Keynes himself, he is not very explicit. He seems to base the collapse of the marginal efficiency of capital more on the growth of uncertainty as an unplanned economy expands (p. 145) than on any assumption of rigidly limited technical uses for capital. While this reviewer personally does not think such a theory enough, standing by itself, it is nevertheless a considerable gain in flexibility.

Space is lacking to list specific errors. Like Klein, Dillard states flatly, “A rise in the rate of interest will actually lead to a decrease in the rate of saving” (p. 193). What in fact Keynes said was “assuming no favorable changes in the demand schedule for investment.” Perhaps the qualifying clause can be inferred from Dillard’s diagrams, but it is probable that only those already steeped in the Keynesian analysis will think to do so.

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<sup>2</sup> J. M. Keynes, *The General Theory of Employment, Interest and Money*, p. 245.

*The American Economy: Its Problems and Prospects.* By Sumner H. Slichter. New York: Alfred A. Knopf, 1948. Pp. vii, 214. \$2.75.

*The American Economy* is a revision of six lectures delivered at Stanford University by Professor Slichter of Harvard University. The book will hearten all those who refused to be convinced by the "stagnation theory so popular during the late 1930's, though it remains to see whether the new configuration of power which Slichter takes for granted will not make the stagnationists right in their conclusions even though wrong in their reasoning.

Applying to the economy four tests, the author finds that it "is far better than most people realize." It shows reasonable respect for human personality; it favors the development of the noneconomic activities of the community—i.e., it gives scope for ideas, experiments and thinking in the arts and sciences, in philosophy and religion; it creates an environment favorable to democratic institutions and processes; and finally it helps find a satisfactory balanced scale of values. On the material side it is "far more productive than most other economies; it is dynamic and progressive; it possesses great capacity to adapt itself to new conditions and to improve its methods and products; it has a multitude of points of contact with consumers, and has done more than any other economy to discover the desires and whims of consumers; it is an economy in which there is broad participation in control, partly through democratic political processes, partly through millions of people who are in business for themselves and who run their own enterprises, and partly through the membership of millions of employees in trade unions."

In three closely reasoned chapters Professor Slichter examines the major problems that threaten to prevent the economy from living up to the high expectations created by past performance and makes constructive suggestions for their solution. These chapters constitute the most interesting and challenging part of the book. They deal with labor-management relations, economic instability, and international trade. He is hopeful that, if "the new holders of power (i.e., the trade union leaders) become familiar with the institutions for which they are gradually becoming more and more responsible" the new "laboristic society that is emerging in the United States has an opportunity to build far better economic institutions than the world has ever seen. It has a chance to keep the best features of capitalism—the large number of enterprises and the considerable decentralization of decision making which keep industry in close touch with conditions, which make it flexible and adaptable, and which have been responsible in large measure for the tremendous dynamic drive of the economy."

The reviewer would go along with many of the concrete recommendations, though he is frankly skeptical as to whether the American trade union movement, if it is to continue to be "the largest and the most powerful the world has ever seen" (this is Slichter's appraisal) will actually permit the release of the dynamic forces in competitive capitalism which Professor Slichter has so vividly described.

Wabash College

JOHN V. VAN SICKLE

*Applied Economic Analysis.* By Francis M. Boddy and others. New York: Pitman Publishing Corp., 1948. Pp. xvi, 573. \$3.75.

Each of six contributors is responsible for a section of this textbook, which is intended for the semester following the introductory economics course. Considering the diversity of authorship, the book shows commendable coordination and integration. The authors have handled their respective assignments ably, cautiously, suggestively, and with a minimum of dogmatism. Students are not left with the false feeling that "all that needs to be said has been said" in connection with economic problems. To assist the student in continued study a list of suggested readings has been appended to each section.

Elimination of waste is considered by the authors to be the basic economic problem. By waste is meant "the failure to use available resources at all" and "the use of resources in activities that do not create the best or most-desired products." With these judgments in mind (are they ethical judgments or economic judgments?) the authors set for themselves the twofold task of leading the student to an understanding of the complicated nature of economic problems so that he may effectively seek their solution and of assisting him in the development and use of a variety of tools of analysis.

After a study of this text the student may be inclined to feel that he is more aware of the complicated nature of economic problems than he is of the possession of "a variety of tools of analysis." This is not intended as criticism; this reviewer feels that, as regards provision of tools of analysis, this book does as well as most textbooks. On the other hand, in this day of alleged omniscience in some quarters, a text might properly be considered worth while if it did nothing more than make the student conscious of the complicated nature of economic problems and create in his mind a feeling of uncertainty coupled with curiosity.

A 60-page examination of "perfect" competition (and departures therefrom) precedes the study of the problems of labor, marketing, money, credit and fiscal policy, agriculture, raw materials and conservation, international trade, and international economic programs. Like others before them, the authors are not completely satisfied with the conclusions drawn in the study of competition, perfect and imperfect, and feel compelled to recognize that, in this section, "the problems studied have been artificial" and that conditions have been restricted "to create manageable problems."

The specific problems which follow are, of course, not artificial. The authors are to be commended for the degree of manageability into which they have been able to bring them. The device used is that of the dual system—partly free market and partly controlled market. "The general effectiveness of competition in free markets for efficiently directing the allocation and use of our productive resources" is accepted with the qualification that under certain circumstances some control must be placed elsewhere than in the competitive system itself. Illustrative of matters which cannot be left solely to the determination of the competitive system are "wide and unexpected fluctuations of income and of resource employment" and "unwillingness to accept as just or desirable the effects of the competitive price system on some persons or in some areas."

The authors are aware of the fact that when "part of a free system is prevented from responding to the forces of supply and demand" other complicated problems may arise. A legal minimum wage, properly determined, might increase both wages and employment; improperly determined, because of ignorance of the slope and location of labor-supply curves, such wages might give effects not desired by society. Trends in collective bargaining may lead to a different distribution of labor resources and government policy has had something to do with this trend; but "little has actually been done as a matter of federal government policy in adapting legislation to the basic problems of labor economics."

Our economic system has never been so free as to be without taxes; and both tax-withdrawal of funds and governmental expenditure of funds affect economic activity. With this in mind, should there be more favorable tax treatment of incomes in the investment bracket in order to encourage a higher level of private investment? The handling of this question illustrates the method of this text. Possession of funds to invest does not necessarily mean that these funds will be invested. For investment to proceed there must be "an over-all demand for goods and services." In the opinion of the authors this does not mean that tax reduction to augment investment funds would not be desirable. It means, rather, that such tax reduction *in itself* would not be sufficient to guarantee a given level of employment.

In line with the idea that nonuse or misuse of resources is a major form of the waste which impoverishes an economic system, considerable attention is devoted to agricultural problems and the conservation of resources. The factual background, the persistent problems, the development of policy with respect to agriculture are well presented. Resources other than agricultural land, such as coal and iron, are rather sketchily mentioned; and the gaps in connection with such resources will not be filled in by the suggested reading.

This reviewer hazards the guess that this is just the book that teachers of "the applied course" in economics have been looking for—provided they do not reserve its use for a more "advanced" course.

*University of Tennessee*

FRANK B. WARD

*A Survey of Contemporary Economics.* Edited by Howard S. Ellis. Philadelphia: Blakiston Co., 1948. Pp. 505. \$4.75.

In 1945 when the American Economic Association appointed its Committee on the Development of Economic Thinking and Information, it specifically planned for a periodic review of economics. The association since that time has sponsored a series of volumes of republished articles that stand in a class by themselves in the excellence of their selections and contents.

This volume, however, is a new book, and a new contribution to economic literature. It could well have been called a compendium, a critique, a summary, or a history of developments in the field of economic thinking since the depression of the thirties. Under the general chairmanship of J. J. Spengler, and the editorial guidance of Howard S. Ellis, the names of the authors of the assigned chapters and those who served as critics reads like a "Who's Who in Economics."

Galbraith, in his chapter on "Monopoly and Concentration of Economic Power," points out that the advocates of neoclassicism in following the partial equilibrium analysis of Marshall, "carried on with little regard to larger issues . . . so painfully relevant to the real world" (p. 110). His treatment of imperfect competition and monopolistic enterprise is both pertinent and timely, in view of the revival of interest in the problems of government and "big business," and the path that may be followed by the 81st Congress. It is possible that once again "the chief harvest" may be "oratory."

Due to receive considerable attention is the chapter on "Federal Budgeting and Fiscal Policy" by Arthur Smithies, who covers the field of theory, budgetary principles, taxation, "pump priming," Keynesian thinking, long- and short-run programs of budgeting, economic objectives to be sought, etc. Further discussion of this chapter is likely to be forthcoming in the journals.

Bernard Haley in his "Value and Distribution" brings us up to date on the contributions made in recent years, and devotes considerable space to particular and general equilibrium theory, and to the developments of the theories of wages, interest, and profits.

Fellner's "Employment Theory and Business Cycles," and Reynolds' "Economics of Labor" may be very closely correlated with Haley's wage doctrines. A fairly integrated picture of distribution theory, employment, economic fluctuations, prices, and public policies may be had by taking Fellner, Reynolds, and Haley, mix in the work of Joe Bain on "Price and Production Policies," and Shoup's "National Income"; a portion of Samuelson's "Dynamic Process Analysis," and statistical appendix will give it added fillip; and it wouldn't be complete without the statistical contributions of "Econometrics" of Leontief, and Villard's "Monetary Theory."

Lloyd Metzler, who went from Yale to Chicago, has done a notably splendid job in his chapter on "International Trade."

In the chapter on "Socialist Economics" by Bergson one may see a return to the concept of "political economy," and find himself convinced that the "only issue outstanding," in the debate between socialism and capitalism, is "which is more efficient?" (p. 447).

David McCord Wright closes this invaluable selection with an optimistic argument for the "Prospects for Capitalism."

This volume will undoubtedly become a ready reference handbook for the overloaded economics professor, the specialist, the business executive, graduate student, and public servant.

Another milestone has been reached by the American Economic Association. "May the tribe increase."

*Loyola University of the South*

FRANCIS J. KENNEDY

*European Ideologies.* Edited by Feliks Gross. New York: Philosophical Library, 1948. Pp. xv, 1075. \$12.00.

The subtitle of this large volume is "A Survey of 20th Century Political Ideas." This is an apt description for, included between the covers, are some 27 chapters written by 24 authors.



In addition to the better known ideologies, such as communism, socialism, Fascism, and liberalism, the book treats many lesser known ideologies among which are agrarianism, Zionism, Pan-Slavism, Pan-Germanism, Catholicism, Russian libertarian movements, anarchism, and the cooperative movement. It is the treatment given these lesser known ideologies that will probably be of greatest interest to those who are already familiar with the more widely known ideological systems.

A "synthetic-survey" of this type is bound to reflect wide variations in style and points of view. Some ideologies are treated largely from a historical point of view while others, frequently of necessity, are presented as they are most widely accepted at the present time. In most instances the author is more or less in sympathy with the ideological movement he is concerned with, although there are several definite exceptions, such as the treatment of communism, by Max Nomad, and of Fascism, by Giuseppe Antonio Borgese and Guenther Reinman. In the narrow sense of the term, theoretical economics has been given little consideration in most of the treatises, although the article on socialism by Algernon Lee might be cited as somewhat of an exception. Holistically, one may find much of economic significance in this volume since ideologies, though they are frequently merely social myths, play an ever increasing part in shaping the destiny of mankind.

The reviewer felt that the chapter entitled "Liberalism in Crisis" by Ruben Gotesky was of particular significance in these times. Gotesky traces the development of liberalism particularly through the writings of Hobhouse, John Stuart Mill, and Karl Marx, the last possessing both a liberal and a totalitarian current. He concludes, pessimistically, that liberalism can only hope to be born again in some post-atomic age following a new Dark Ages.

The dim outlook for liberalism in this age is traced mainly to the concentration of industries, which seems to involve totalitarian planning; man's psychological state induced by economic and social insecurity; the stage of world economic development; the rise of communist totalitarianism; plus the fact that man is too ignorant and there is so little time in which to educate him.

In contrast to the pessimism of Gotesky, Horace M. Kallen, writing on cooperatives, sees the possibility of a world-wide economic collaboration of free men through the rules of Rochdale.

While *European Ideologies* is not intended as a text for beginning students of economic systems, they will, nevertheless, find much here which will serve to give them a better understanding of the issues faced, not only in Europe, but throughout the world. Specialists as well as the general reader should also find this book extremely interesting and thought provoking.

University of Kentucky

JOHN T. MASTEN

*Mutual Savings Banks in the Savings and Mortgage Markets.* By John Lintner. Boston: Division of Research, Harvard University Graduate School of Business Administration, 1948. Pp. xi, 559. \$6.50.

This scholarly work is of more general interest to the student of economics and finance than its title would indicate. Part I of the volume is devoted to a con-

sideration of the present sources of strength of the mutual savings banks together with reasons for their decline in relative importance as repositories of savings. For while deposits of mutual savings banks reached an all-time high of \$18 billion in 1947, the savings banks' *share* of those savings held in private institutions (including net equities in life insurance policies) has fallen from 62 per cent in 1880 to about 17 per cent in 1946. The author examines the reasons for the decline of mutual savings banks in the savings depository market and concludes that the trend will continue unless "appropriate steps" are taken to reverse it. Considerable attention is given to possible ways in which the banks may improve and extend their services, and emphasis is placed on the importance of promoting the insurance departments of the banks.

Part II contains an analysis which most readers will consider highly important. Since future safety as well as maintenance of their patronage depends largely on the earning power of the savings banks, a detailed examination of investment policies of the banks is undertaken. Basing his conclusions upon a painstaking examination of the mutual savings banks in Massachusetts, which are taken to be broadly representative of these institutions as a group, Professor Lintner traces the recent shifts in portfolios and the trends in incomes and operating expenses. As a consequence of severe losses from their mortgage holdings, bank managers withdrew in the 1930's from new mortgage lending and invested in government bonds. The greater part of the losses on mortgages were not accepted until the years 1939-1943, this postponement of write-offs being occasioned largely by a desire on the part of management to avoid showing a decreasing published surplus figure. The result of such a policy was to bring about an inequitable distribution of dividends to depositors and to increase the total amount of losses which eventually had to be taken.

In three well-reasoned chapters the author shows that while certain evidence would make real estate mortgages seem undesirable assets, net yields on mortgages, after allowances for all costs and losses, have exceeded those on government bonds, and he concludes that they will continue to do so. He insists, however, that the cyclical variation of losses makes it imperative that funds be regularly accumulated over the cycle as reserves against severe losses which will be concentrated within a period of a few years. The book concludes with a detailed statistical analysis of a sample of over 10,000 mortgage loans made by Massachusetts mutual savings banks in the period 1918-1945. The results of this study should furnish management with valuable information regarding the many factors which affect the risks involved in mortgage loans.

In Part I of this work the author considers at perhaps too much length certain elementary concepts and some matters of little consequence. The entire volume, however, merits a careful reading. In addition to furnishing a mass of up-to-date information regarding a group of important institutions, Professor Lintner has done research which may have considerable influence on thinking with respect to the selection of institutional investment portfolios.

*University of Tennessee*

ROSS M. ROBERTSON

*Cotton Textile Wages in the United States and Great Britain: A Comparison of Trends, 1860-1945.* By Roland Gibson. New York: King's Crown Press, Columbia University, 1948. Pp. ix, 137. \$2.50.

This work is largely a statistical study of wages in the cotton textile industry in the United States and Great Britain from 1860 to 1945. It attempts to compare trends in hourly wages, real wages, labor productivity, the standard of living of the workers, wage differentials, and regional differences in the two major cotton textile producing countries over a period of 85 years. The findings and conclusions are both interesting and significant for those who must shape future management and union policies in our textile industry as well as industry generally.

The study shows that money wages of cotton textile workers rose more in the United States than in Great Britain over the entire period between 1860 and 1945. Due to the unwillingness of British management to modernize their plants and the reluctance of unions to cooperate with those managers who were willing to adopt modern developments in technological and industrial organization, labor productivity and hourly wages in that country lagged behind labor productivity and hourly wages in the United States. The author feels that if both management and labor had worked together to keep pace with the United States in the development of modern methods and techniques the British workers would have been better off and more workers would have had jobs in the industry in the long run.

The author found that from 1860 to 1914 real wages rose more in Great Britain than in the United States. From 1914 to 1924 real wages rose more rapidly in the United States, but between 1924 and 1932 real wages rose in Great Britain while they declined in the United States, "probably as a result of the policy of the British trade unions in concentrating on the maintenance of real wages." Since 1932 real wages have been rising more rapidly in the United States.

It was found that there was a larger gap between the wages of workers of the highest and lowest skills in Great Britain than in the United States. This is partly due, the author believes, to the policy of the strongest craft unions of pressing their strong bargaining position at the expense of the less well-organized unskilled groups. That is exactly what many union leaders are trying to do in the United States at the present time. Such union leaders would do well to read this interesting little book. The author states, "An implication from this revelation for labor policy would appear to be that the best interests of all workers are not served if individual workers or groups of workers concern themselves with maintaining their own status or attempting to improve their own craft status at the expense of other crafts."

Most of us would certainly agree with the final conclusion of the author when he states, "Regarding the elevation of the standard of living, whether in backward or advanced countries, the implication of our findings is that the crux of the issue is to increase the productivity of the factors of production, whether land, labor, or capital. The more this productivity can be increased, the greater will

be the rise in income, and the greater will be the increase in the standard of living." With many American unions practicing a policy of restriction of output and insisting that they be given more power in the reorganization of job assignments and classifications along with many other restrictions placed upon management, we are led to wonder if the standard of living of our people can continue to rise as in the past. This study gives us food for thought.

*University of Virginia*

GEORGE T. STARNES

*The Union Challenge to Management Control.* By Neil W. Chamberlain. New York: Harper & Bros., 1948. Pp. x, 338. \$4.50.

The rapid growth of the power of unions in this country since the early thirties has caused management much concern and worry. The fact that some 15 million workers are now members of over 50,000 local unions and more than 190 national unions indicates that unions now enjoy enormous power in both production and distribution. This great increase in collective bargaining has enabled unions to threaten seriously many prerogatives of management formerly considered sacred ground.

The purpose of the book is to determine to what extent unions have actually succeeded in gaining a voice in management functions through collective bargaining and to forecast as far as is possible present trends in the direction of future union-management cooperation. In seeking to accomplish his purpose, the author treats of special phases of the problem as they have arisen in the automobile, steel, and meat packing industries as well as in public utilities.

The most interesting part of the book deals with the purposes back of union demands for a greater voice in the policies and practices of management. The author found that union leaders are almost unanimous in their opinion that any managerial decisions or authority threatening the security of the workers must be regulated by contract between the union and management. Security is interpreted in a broad sense as anything affecting the material well-being of union membership. However, security is but one of the objectives of unions in their demands for more voice in management's affairs. They are also striving for recognition and self-expression. In other words, they are seeking more democracy in industry. Both unions and management are now seeking to obtain through the corporation fundamental ends such as security, recognition, and self-expression and by so doing there is room for much conflict. The author believes this conflict will continue, "until or unless both management and union reach an understanding which permits them to achieve their goals jointly."

When managers seek to confine unions to traditional areas of collective bargaining they are not only fighting unions as economic organizations but a philosophy that has its roots in the distant past. In a sense, the direction which unions have taken "has not been guided by self-choice but by the democratic philosophy of the society of their origin."

The author feels that there is need for greater functional integration in the union-management field. He devotes three chapters of his book to this fundamental problem as follows: The Need for Functional Integration, Responsibility

and Authority in Functional Integration, and Further Requirements of Functional Integration.

The book deals with a problem of increasing importance to management, employees, and the general public. All will do well to read it. Unless a plan of cooperation can be worked out which will be satisfactory to both sides the fight will continue for a long time. In the opinion of the author, "We can only say that in the light of the past there is no reason to read a future in which the union challenge to managerial authority will become less pressing, less persistent, or less successful."

*University of Virginia*

GEORGE T. STARNES

*Future Food and Agriculture Policy: A Program for the Next Ten Years.* By John Donald Black and Maxine Enlow Kiefer. New York: McGraw-Hill Book Co., 1948. Pp. viii, 348. \$3.50.

This is a timely book on an important problem, not only in the United States but also and more particularly in the rest of the world. It is the result of a joint undertaking of the two authors and the National Planning Association, assisted by three committees—a subcommittee from the cooperating agency, a special committee of the American Farm Economic Association, and the Committee on Food Economics of the Food and Nutrition Board of the National Research Council. As a result the authors, of whom the senior author, a well-known authority on agricultural economics, has already made several contributions in books and articles on agricultural policy, had the assistance in consultation and otherwise of leading experts on food and nutrition. In 30 chapters, divided into four parts, and an appendix, they present material on food consumption, nutrition, distribution, and production in the United States and many other countries of the world.

Part I gives the situation before, during, and after the war to 1947 relative to food, nutrition, and agriculture in the United States and the world at large. They find that despite a high level of food consumption in this country a considerable percentage of the population is malnourished because of low incomes and ignorance. Prior to the war Western Europe was in the same category; now nutrition is at a much lower level. In the East two-thirds and in Asia and the Tropics three-fourths of the population have diets much below the standard for health.

In Part II the problem is analyzed by major parts as follows: population and resources, nature of agriculture, low-income families in agriculture and malnourished groups, food distribution, and food targets. The high points of this section are the revival of Malthusianism, the excellent discussion of the part processors play in destroying unwittingly important nutrient elements in foods, and the analysis of the comparative inefficiency of the distribution system.

The last two parts (III and IV) of the book are devoted to outlining an agricultural and food program for the United States and the world and to a brief discussion of the part the different segments of the economy should play in putting it into effect. The program advocated for the United States, and with

modifications for a sizeable number of foreign countries, consists of two major parts: first, preplanting and prebreeding announcement of a *total annual quota* for each farm product sold with a corresponding support price; and second, a supplementary food distribution program to improve the food situation of the malnourished. Farm quotas would be determined for individual farms by the quantity sold with supplementary payments, as grants-in-aid for some farm improvement plan, being related to such quotas in the same ratio as the total annual quota is to total U. S. production plus any increase in carry-over above normal. Thus the authors present unique and new ideas for establishing national and farm quotas, but space allotted the reviewer does not permit a critical analysis.

Although the main emphasis in the book is on food and its problems, little space being given to anything else, the authors state that the sections on production include fibers. In addition, a short appendix in three parts is devoted to some of the major aspects of the situation of fish and fisheries, fibers, and timber. In conclusion the authors have made an excellent beginning in assembling material, of which obviously more and better data are greatly needed, on food and agriculture in the different countries of the world, and their book should prove a valuable addition to the literature on agricultural policy. Social scientists and others will find in it serious "food for thought" for now and the future.

University of Virginia

JOHN L. FULMER

*American Banking System: A Sketch.* By R. S. Sayers. New York: Oxford University Press, 1948. Pp. v, 130. \$2.00.

A University of London professor of economics here undertakes to sketch for the English reader "in the compass of an evening's reading" the American banking system. The attempt is quite successful. Like most British economists (the late Lord Keynes excepted?) the author expresses his ideas with cogency and clarity.

As might be expected, an authority on British banking would want to compare two features of our system with their counterparts in England—branch banking and central banking. He finds, of course, only a limited and superficial similarity between the nation-wide branch banking of the Big Six in England on the one hand and our branch, group, and chain banking and our system of correspondent banking on the other hand. His brief discussion of the development and the philosophy of the Federal Reserve System would do credit to any American teacher of banking. In spite of having almost no firsthand contact with our banking system, he displays a remarkable "feel" for its technical operations and for its elements of strength and of weakness. One may suspect that he does not quite apprehend the full extent of the influence of our Treasury over the Reserve System during and especially since the end of World War II. But his grasp of central banking in general and his analysis of Federal Reserve policies over the past 30 years make rewarding reading.

His conclusions are that there is probably little difference between banking services in America and in England today. "For the small depositor whose transactions are highly localized, banking is probably as safe, as convenient, and



as cheap in America as it is anywhere else. For the larger customer, especially if his business spreads far and wide, the deficiencies inherent in a unit system have not been completely overcome, though he seems to do pretty well as a borrower" (page 116).

For the American student who would like a concise review of our banking system with special emphasis on changing Federal Reserve policies and on similarities and differences between our system and that of the British, he could find nothing better than this "sketch."

*The Woman's College, University of North Carolina*      ALBERT S. KEISTER

*Money and Banking.* By Jay L. O'Hara. New York: Pitman Publishing Corp., 1948. Pp. xx, 671. \$4.75.

This is another textbook in a field already supplied with a dozen or more textbooks, some of which are revisions and others are new but patterned on successful books. Of those currently available only Chandler's *Economics of Money and Banking*, with its exceptionally thoroughgoing treatment of monetary theory, and Hart's *Money, Debt and Economic Activity*, with its genuinely original attack on the problems of monetary theory, offer any departure from a well-established pattern. The book under review departs from the pattern only in minor details, and is thus unlikely to attract those who seek to improve the money and banking course by adoption of a text with a fresh approach. In many respects it is a less satisfactory means to continuing in the accepted pattern than the better of the presently available texts.

The book under review consists of 30 chapters averaging about 20 pages in length. The use of a bold, easily read type face with widely spaced subheads and the inclusion of a summary, a list of questions, and a group of references for further reading reduces the content of the chapters to an often summary treatment. Moreover, the author's tendency to repeat the exposition of matters such as the reserve requirements of national banks and the expansion power of banks reduces the real content of the book. With the exception of the final chapter, which discusses the problems of money and banking remaining to be solved, the chapters bear the usual titles found in the typical textbook. The question list, which should be useful, is made up of the type of question which has led to the abandonment of this feature in most books. The reading references appear not always to be well chosen and generally do not indicate the pages or chapter in the cited work which bear on the chapter's topic. The author is given to the employment of an unconventional terminology which may cause confusion. For example, the term "legal money" is substituted for "lawful money," and banks are described as lending their deposits. Thus the brevity of the book, which is a good feature, is offset to a large extent.

In the judgment of this reviewer an author's treatment of credit expansion and of the value of money are critical tests of the acceptability of a text. In the book under review, the former topic is treated at considerable length, but the argument does not move forward lucidly at all points. Particularly unclear is the process by which bank deposits expand when banks purchase government

securities. This may be due in part to the author's assumption that Treasury checks are drawn on commercial banks. Moreover, after having repeated again and again that the individual bank can lend only an amount equal to its excess reserves, the author subsequently suggests in at least two places that the individual bank is able to lend an amount equal to several times its excess reserves. On the topic of the value of money, the transactions approach and the cash balances approach are presented in a form that may strike the reader as not completely accurate. The income approach is cast in a form that may not be understandable for college juniors. Anyone teaching these sections will be obliged to give material assistance to his students if they are to understand the topic under consideration. This assistance will be to a large extent the restatement of the author's unclear exposition.

Errors of fact in the book are not unusually numerous when one reflects on the mass of institutional descriptive data that is contained in an American money and banking text. A careful reading by an informed publisher's editor or a generous colleague would probably have caught those which appear, such as (1) the interpretation of wartime purchases of U. S. securities by Reserve banks as support of a weak securities market, (2) the statement that time deposits were accorded a lower reserve requirement than demand deposits for the first time the history in the Federal Reserve Act, and (3) the statement that national banks may lend to one obligor not more than 10 per cent of the bank's "capital and unimpaired surplus." Historical interpretation is handled with a certain freedom that may prove bothersome to the careful student of history, as for example in the section that deals with the disappearance of small denomination coins from circulation in the middle of the last century, where the date of their disappearance seems to be advanced some years.

On the whole, in the judgment of this reviewer, the author could have presented a much more usable textbook had he taken somewhat more time to his task. Elimination of repetition, a better balance in space accorded to various topics, and improvement of the exposition could possibly have been achieved if the author had not apparently been anxious to tap the current booming market in college textbooks.

Duke University

EDWARD C. SIMMONS

*Introduction to Fiscal Policy.* By Richard W. Lindholm. New York: Pitman Publishing Corp., 1948. Pp. xiii, 235. \$2.75.

Professor Lindholm sets out to treat "thoroughly" and to evaluate "the possibilities of using government revenues and expenditures to affect the economic activity of the nation." He inspects the usefulness of the various fiscal devices in achieving each of "*the four goals*" (italics added): desirable prices, a desirable consumption level, a desirable employment level, and desirable income distribution. The economic logic is usually sound, and with varying supplementation the book could be made useful in economics courses, both graduate and undergraduate, for teaching the manipulative possibilities of the economic apparatus. At the same time, one may doubt that the analyses "can be read and

understood by the average student of political science, education, sociology, and history." While admirable clarity is frequently attained, such readers will surely rely mainly on the presence of aims, terms, and presuppositions which have come to carry the somatic resonance often mistaken for rational conviction.

To liberals the book will be distressing. It is on the whole well within the Keynes-Hansen orthodoxy. No fiscal device is to be despised, as long as its immediate effect is in the "desirable" direction. But what constitutes the "desirable" is, in spite of the listing of goals, dangerously vague. Thus, fiscal devices may be used freely to influence relative prices and the distribution of income; but no discussion is offered on the relationship between these practices and the need of a mechanism whereby the allocation of resources may be subjected to some test of consistency with consumers' tastes. Apparently, the planning board's judgment is considered generally superior to the market test; but, while the standard cases are cited in which this is universally agreed to be true, the problem is not really considered; and no hint is given of a need either of criteria by which the board may judge its own actions or of rules serving to protect the board from degenerating into a tool of vested interests. Again, stability of the price level is applauded; but the unpopular medicine necessary to render compatible this aim and that of a desirable level of employment is not mentioned, nor is the solution indicated in case of their incompatibility. And, as to consumption, the ideal pattern seems to be simply that which will maximize productive efficiency! Professor Lindholm thus, like so many recent authors, ends his analysis where serious social economics only begins, and thus presents mainly an improved manual for the happy planner.

*University of North Carolina*

CLARENCE PHILBROOK

*Business Incorporations in the United States, 1800-1943.* By George Heberton Evans. New York: National Bureau of Economic Research, 1948. Pp. viii, 184. \$6.00.

This volume presents the results of an exhaustive study of new business incorporations over almost a century and a half of American history. The annals of corporation births epitomize vividly the changing pattern of American entrepreneurial activity. Much new light is shed on these developments and a better perspective given to the episodic character of new investment opportunities. Interesting confirmation of the uncertainties of new business ventures is also provided by corporation life tables derived for one state. Almost one-half of the corporations, for example, apparently survived less than two years!

The earlier period of the special charter, which came to a close in 1875, was characterized by three long waves of almost 20 years each in the formation of manufacturing and turnpike companies. The turnpike era is shown to have persisted until 1880 instead of 1860 as commonly supposed. The surge of railroad promotions beginning in 1828 is clearly seen to be centered in the years 1832-36.

The period of general incorporation laws witnessed a rapid increase in new incorporations which leveled off by the 1890's. The popularity of New Jersey until 1900 is illustrated by an interesting compilation of well-known "trusts"

chartered during this period, but no explanation of this phenomenon is offered. The rise of Delaware as the home of large corporations is strikingly shown by the data.

Professor Evans undertakes an elaborate breakdown of incorporation data by industrial classification. This analysis yields disappointing results in that numerical importance alone gives no hint as to the magnitude of movements in various fields. The broad classifications used, e.g., "transportation," also conceal developments in important subclasses. Besides the long cycles in various fields many interesting random movements are illustrated, such as the activity of a Texas oil boom, the Colorado gold and silver discoveries, the Ohio skating rinks in 1884, and the Tom Thumb golf courses in 1930.

Cyclical analysis of incorporations shows a high degree of conformity with the movements of general business activity. The peak and trough of new ventures lead the general business peak and trough by an average of 2.5 months and 3.6 months, respectively. Classification by size points up the sensitivity of large incorporations in particular to cyclical activity.

An impressive amount of original research has gone into this study. The statistical techniques are simple and the data are incomplete, being limited to 16 states. They are, nevertheless, adequate to the formulation of important tentative conclusions. Much further exploration of this area needs to be done and hypotheses refined in the light of further data and analysis. This task is greatly assisted by the excellent tables and sources found in the appendixes.

*University of North Carolina*

GEORGE E. LENT

*The Management of Marketing Costs.* By James W. Culliton. Boston: Harvard University Graduate School of Business Administration, 1948. Pp. x, 168. \$2.50.

This study of the way in which executives of industrial manufacturing companies manage their marketing costs is the first in a series of research projects. As such, it is exploratory and provocative, raising problems and providing a background.

Unlike some reports of this nature, it is written with vigor and simplicity, resulting in a readable, as well as informative, discussion of how managers come to decisions in reference to selling problems. The introduction of blank pages so that the reader may add to the list of "Available Order-Getting Ingredients," a device that might be used by others to make their listings more palatable, is typical of the refreshing quality of this volume.

After discussing the research itself, the author shows the difficulties encountered by the businessman in attempting to differentiate marketing costs from other costs, especially when the activities covered are not "obviously and solely" of this nature. How decisions are made as to what order-getting ingredients should be used is next explored, followed by the methods employed in checking results. Ways in which the executive prepares for the future, mainly by corrections of the past actions, show that the management of marketing costs is a continuous process.

Intimately related to the management of all costs, the management of marketing costs is largely determined by the character of the management, variations being introduced by the things being managed, the persons doing the managing, the movement of the locale of the decision-making process up and down the management ladder, and the movement of the whole through time.

It is to be hoped that the practices of companies other than industrial manufacturing ones will be examined in this way and that the other reports in this series will be as entertainingly written, as the author proves that scholarly material need not be presented in dull fashion.

*University of Alabama*

DONALD F. MULVIHILL

*Job Horizons: A Study of Job Satisfaction and Labor Mobility.* By Lloyd G. Reynolds and Joseph Shister. New York: Harper & Bros., 1949. Pp. x, 102. \$2.25.

This little book is the second in a series of reports issued under the auspices of the Labor and Management Center at Yale University. This preliminary presentation summarizes part of the information obtained through guided interviews with workers in the tested area.

The study was made in a medium-sized New England manufacturing city. The appendix discusses in detail how the samples were drawn and might well be studied first. Changes in occupational listing in the City Directory of 1947 as against 1946 jobs were used to advantage in studying mobility and the reasons behind it.

The body of the report consists of six chapters, entitled respectively: The Problem of Mobility, Factors in Job Satisfaction, The Worker's Choice of a Job, The Choice of a First Job, Movement Up the Occupational Ladder, and the Worker's View of Job Opportunities.

Six tables are given which concisely present the main findings. The generous use of excerpts in the workers' own words are most revealing and should be of particular value to all concerned with improving personnel relations in industry. The similarity of the responses appears to indicate both the reliability of the method used as well as the underlying consistency in the pattern of worker behavior.

The full report covering the 800 workers studied will be presented in book form in a year. In their preface the authors point out "the findings reported here, are of course suggestive of the way in which present theories of the labor market should be revised if they are to accord more closely with reality." Their reflections on these matters should be interesting and informative to personnel directors and plant managers as well as to teachers and other serious students of the labor market.

*Florida State University*

ROYAL MATTICE

*Training Employees and Managers.* By Earl G. Planty and others. New York: Ronald Press Co., 1948. Pp. 278. \$5.00.

This book is a worth-while contribution to personnel administration because

of the comprehensive coverage of the training field, the broad scope it assigns to training in management, and the new trends it embraces which are significant in the field of employee relations. From the conceptual standpoint, the authors stress the theme of training as embracing "skill, knowledge, and attitude." To the authors, training not only embraces all levels of employees in the organization, but it includes the molding of employee attitudes through devices such as all available publicity media, counseling of employees, and all other means of building morale. The growing trend of "general education" for all levels of employees in the organization is also well covered.

The main emphasis of the book rests on sections dealing with the field of training, organizing, installing, and administering a training program, different methods of teaching, different groups in need of instruction, and the qualifications of teachers. The what, who, and where of teaching are well covered. The lesson plan technique is carefully explained.

The general approach of training programs is one of evaluation: analyzing advantages and disadvantages of various approaches, culling out reasons for weaknesses in different programs. From that standpoint and from that of general philosophy, the book is excellent. It is lacking somewhat in evaluating methods of supervisory training. The main objection, however, is in the scant attention paid to problems and their attack in employee training. The section on job teaching is mainly a rehash of J. I. T. methods with some treatment of learning curves and training schedules.

In the main, the book is well organized and well written, with perhaps a little more discursive approach than is necessary. The authors have the benefit of sound experience. Their ideas are sensible and seem, in most cases, to be based on actual experience. The sections on management and supervisory training are particularly well handled. Their thoughts on the value of participation in training, on conference handling, on homogeneity of groups, and use of training aids undoubtedly reflect considerable firsthand knowledge.

The work is particularly useful for the following: the place of a training program in business; the make-up of a comprehensive training program; for the small company, the problems inherent in their structure; topics or fields of training; groups to be trained; methods of training nonoperative personnel; the function of training in developing sound employee relations.

*University of North Carolina*

RICHARD P. CALHOON

*Hawaii: A Century of Economic Change, 1778-1896.* By Theodore Morgan. Cambridge: Harvard University Press, 1948. Pp. xi, 260. \$4.00.

It is reassuring to note that the trend in economic subjects is to stress sociological considerations. Without these considerations we are left in the dark concerning the great drama of the human equation.

The status of the Hawaiian people is clearly presented in this book and it moves along rapidly with an astonishing amount of factual information in a style that enables the reader to grasp the fundamental facts without effort.

We see how the Islands undergo what may be termed an economic invasion



and the profound changes that take place as a result of these economic invasions with the eventual destruction of the institution of feudalism. In the words of the author, "Each historic process is unique," we are reminded that the economic history of any area is a great deal more than cause and effect and for that reason the different geographical sections must be studied separately.

We are apt to pass over commodities and industries as if they were nothing more than statistical enumerations. It is better if we know the origin of these enumerations. In this way current statistics assume a fuller meaning. Current information on Hawaii will mean a great deal more to anyone who has read Morgan's book.

The appendixes and footnotes are valuable sources of information to almost any phase of study that one may wish to pursue further, and now with the interest manifested in the great Pacific waters, we have a convenient starting point.

One of these days we shall have to do something more than merely talk about Hawaiian statehood. This brings to mind the admonition to the American people that they will be called upon more and more to share in the great and grave decisions which must be made by our government. Those of us who read this book on Hawaii will be in a better position to answer the question whether it will be better for all concerned for Hawaii to go along with us or without us.

*Loyola University of the South*

ALEXANDER I. WARRINGTON

## STATE REPORTS

### ALABAMA

Alabama continued to enjoy high-level economic activity during the fourth quarter of 1948. The index of industrial activity for November 1948 prepared by the Bureau of Business Research of the University of Alabama was 188.1 per cent of the 1935-1939 average year. This compares very favorably with the general level of production activity attained since the end of the war, but is approximately 12 points lower than the 1948 midyear peak.

Some soft spots in the state's economy deserve special comment. Weakness continues to characterize the coal and textile industries; both have recorded a further slowing down since the third quarter of 1948. In November the state's coal production was 6.4 per cent below October and 7.4 per cent below November 1947. Cotton consumption in November was 6.5 per cent below that of a year ago. Both industries registered a substantial decline in employment during the fourth quarter. Residential construction shows some signs of slowing down. The value of building contracts awarded for residential construction in November was 23 per cent under October and 32 per cent below November 1947. There is increasing sentiment for lower building costs and better quality. If these requirements are met, expectations are that there will be a marked increase in residential building. The estimated value of retail sales in Alabama during the fourth quarter indicates some falling off of trade activity. Although retail sales continue to exceed those for the corresponding period last year, the gain shown in October 1948 was less than that for the previous month, and the estimated value of November's sales was 7 per cent below that of October. This is partly a reflection of lowered retail prices in some areas of the state. The Consumers' Price Index of the U. S. Bureau of Labor Statistics for Birmingham showed a decline for four consecutive months (September through December); the November index for Birmingham was 5 points below that for October.

Cash receipts from farm marketings in Alabama for the first 11 months of 1948 increased 7.7 per cent over the corresponding period a year ago. This gain compares very favorably with that of only 3.4 per cent for the United States as a whole. However, recent increases in farm income have been made at lower rates than those of last year. Prices received by Alabama farmers declined steadily during the fourth quarter of 1948; farm prices in November were 5.2 per cent below those of November 1947. Receipts from livestock and livestock products continue to play an important role in the state's agricultural economy. For the first 11 months of 1948 they made up nearly one-third of total farm income.

Sales, gasoline, income, and tobacco taxes (in the order named) continue to be the "big four" among the 40-odd tax sources administered directly by the state. For the fiscal year, October 1, 1947, through September 30, 1948, these taxes amounted to \$78,000,000 and accounted for 89 per cent of the tax revenue collected directly by the state. Total tax revenues for the 1947-1948 fiscal year were 15.1 per cent above collections for 1946-1947. Collections during the first quar-

ter of the new fiscal year continue to reflect increases, but these are being made at a declining rate. Disbursements from the state's Special Educational Trust Fund increased 73 per cent during the fiscal year 1947-1948. This increase is due to (1) earmarking the state's income tax revenues exclusively for education, and (2) higher revenues from sales taxes and other sources which contribute to education. As a result of this large increase, the average salary of teachers in the public school system was raised during 1948 to \$1900. This figure is considerably lower than the national average of \$2750, but is nearly twice the average salary of \$1015 received by public school teachers in Alabama in 1945.

During 1948 the state's pattern of industrial development continued to grow more diversified and complex. Already built or in the advanced planning stage are plants producing tractors, fabricated copper products, newsprint, rubber products, aluminum foil, rayon, and roofing materials. These developments are in fairly sharp contrast to the state's traditional industries such as lumber, coal, cotton grey goods, brick, sand, gravel, cement, and basic steel products. The more recently acquired industries are characterized by more complex manufacturing processes, higher skilled and semiskilled labor requirements, high value added by the manufacturing process, and higher wage rates. Their success will undoubtedly mean higher per capita incomes for Alabamians and for the people of the South as a whole.

*University of Alabama*

LANGSTON T. HAWLEY

## FLORIDA

At the end of the first month of 1949 Florida's economy was showing mixed tendencies. Mild weather in the Northeast had contributed to a slow tourist business along Florida's east coast. On the other hand the Gulf Coast from Clearwater south was experiencing the best tourist season on record and building permits were at a new all-time high in this area. Manufacturing employment at year's end was estimated at 100,000, well above the seasonal peak. But agriculture, especially citrus, continued in a depressed stage.

Orange prices, which had fallen to less than \$2.00 per box FOB in some places, jumped to an average \$2.75 following the usual holiday shipping ban and the California freezes. But the rally was short-lived as shippers deluged the market. This episode further underscored the need for concerted action by all producers. Spurred on by such market fluctuations as well as by the endorsement of the new governor and both U. S. senators, Florida Citrus Mutual was in sight of its goal to sign up 75 per cent of the total crop so that it could begin to function as a super-cooperative for the industry. Orderly marketing and perhaps establishment of minimum prices may result.

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Another sign of declining business was the sharp fall in racing revenues from the tax on betting at the tracks. Receipts were down 15 to 20 per cent as the season neared the half-way mark. Other major state revenue sources, taxes on alcoholic beverages and cigarette sales, were down only slightly. With record budget requests for state aid to public schools, welfare, health, and the institu-

tions of higher learning readied for legislative action in April, the need for additional state revenues becomes apparent. Florida is the only state in the South without either a state income or a sales tax.

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After lengthy arguments by opposing interests in U. S. District Court, the presiding judge disapproved the plan to merge the bankrupt Florida East Coast Railroad with the Atlantic Coast Line system. The issue now goes back to the ICC which approved the merger by a 6 to 5 vote last year. The Interstate Commerce Commission has also been asked to investigate complaints from Florida roads that the State Railroad and Public Utilities Commission was not approving rate increases comparable to those authorized by the ICC. The state body may be given authority by the next legislature to regulate public utilities which are not now subject to state regulation.

*University of Florida*

C. H. DONOVAN

### GEORGIA

Creation of a nonpolitical Forestry Board properly empowered and adequately supported financially to establish and carry through a definite program for the protection and full utilization of the forest resources of Georgia has been recommended by the Business Executives' Research Committee, a study group of leading Atlanta business executives and professional men under the sponsorship of the School of Business Administration of Emory University. According to the committee's recommendations, the duties of this board would be to (a) promulgate and effectuate a state-wide program for the development and protection of woodland resources, (b) establish a comprehensive state-supported organization for detecting and suppressing forest fires, (c) inaugurate an intensive and sustained educational program to instruct young people and grown-ups alike in the importance of proper protection, harvesting, and utilization of trees, (d) encourage and assist large-scale reforestation measures, and (e) license properly qualified professional foresters to appraise and certify volume and value of timberlands for use in loan appraisals, sales contracts, court action, and other purposes.

These recommendations are contained in a 23-page report of the Committee on *Problems in Forest Conservation and Development*, recently published by Emory University. While this study, which the committee considers as "primarily in the nature of a report from businessmen to businessmen," is directed toward forestry problems as they relate to Georgia, it should be of wide interest to economists and others throughout the southern states.

The report stresses the fact that, although forests in Georgia now surpass in importance even the state's traditionally great cotton-raising industry, Georgia is lagging in its efforts to develop and conserve its forest endowment. Present practices are using up the forest reserves of the state faster than nature replenishes them, according to the committee. In this connection, attention is centered on the lack of an adequate state-wide program for detecting and preventing forest fires. The report points out that a successful solution to this problem will automatically correct some of the other difficulties and contribute materially to the working out of the remaining questions in this area.

The total cost of the suggested program is estimated at approximately \$1,500,000 annually. The committee believes that it could be financed through some form of special taxes. Several possibilities in this respect are discussed in the report but further study of the tax complexities involved is necessary before a definite method should be adopted, according to the committee. The report states that the Business Executives' Research Committee is opposed to any legislative action which would call for public control over cutting or utilization of forest resources on private lands.

The Business Executives' Research Committee developed out of a suggestion in 1947 by representatives of the Committee for Economic Development concerning the desirability of inaugurating among businessmen of the Atlanta area a program for promoting education on major economic problems which confront the Southeastern Region. Financed jointly by the Carnegie Corporation and Emory University, the committee's first year study program, from which the above report emerged, covered a variety of subjects of mutual interest to business and agriculture, centering around problems of soil restoration and conservation, agricultural diversification, forest conservation and utilization, farm marketing, and farm price support policies of government. Plans call for a continuance of the committee's study program for at least another year, attention being devoted during 1949 to foreign trade problems of Georgia and the Atlanta area.

*Emory University*

ALBERT GRIFFIN

#### LOUISIANA

Industrial progress in the state of Louisiana during the year 1948 was reflected in great increases in the number of firms locating in the state, bringing employment and increased payrolls in several sections. A total of 322 new firms came to Louisiana during 1948, and, according to the Department of Commerce and Industry, spent \$214,606,133 for buildings, machinery, and equipment. Employment for an additional 16,999 people was afforded within the organizations of these new plants, with permanent payrolls being assured in the amount of several millions of dollars.

Tax exemptions were granted to 306 of the new firms under the Louisiana law which grants freedom from ad valorem taxes for a period of 10 years. Sixteen applicants were refused such exemptions, but the combined expenditures of these firms were only \$974,674 for plant construction, and they provided only 212 jobs within the state.

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Interesting plans have been formulated to give further stimulation to the \$100,000,000 tourist business of the state during the year 1949. One such plan, formulated by the tourist bureau, contemplates the construction of a series of roadside parks along every major highway in the state. Cabins in some instances, and rest houses, barbecue pits, and other facilities will be provided in all cases. The tourist bureau also will construct wayside cabins at the entrance of every major highway into Louisiana, with large standard-size illuminated billboards welcoming out-of-state visitors. Road maps, literature, and "welcome" stickers will be provided in an effort to add service and pleasure to one of the state's outstanding businesses.

Statistics released by the Louisiana Crop Reporting Service for the year 1948 reveal that Louisiana farms produced a total of \$303,000,000 worth of crops during the year, representing an increase of 13 per cent over 1947. Cotton, showing an increase of about 15 per cent over the year 1947, represented the greatest single agricultural production, being valued at \$140,000,000. This dollar valuation of the cotton crop shows that it made up 46 per cent of the total for the farm products during the year. Other outstanding crops of the state during 1948 were valued as follows: rice, \$54,000,000; sugar cane, \$31,000,000; corn, \$30,000,000; sweet potatoes, \$11,000,000; strawberries, \$8,400,000; hay, \$7,700,000; oats, \$3,800,000; Irish potatoes, \$2,700,000; and sugar cane syrup, \$2,100,000.

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Crude petroleum production in Louisiana during the year 1948 reached a total of 189,972,000 barrels, compared with a 1947 total of 160,291,000 barrels. As of January 1, 1949, the state had 9,356 producing oil wells, with an average yield of 55.5 barrels per day. A total of 2,325 new wells, with a total footage of 10,934,320 were completed in Louisiana during 1948, according to the *Oil and Gas Journal*. Plans announced by various companies indicate that oil well drilling in the state during 1949 will reach a total of 2,041 new wells.

*Louisiana Polytechnic Institute*

PAUL T. HENDERSHOT

### MISSISSIPPI

Since the discovery of oil in the Tinsley field in Yazoo County in the latter part of 1939, oil production has become a major industry in Mississippi. In that year only nine producing wells were drilled and production amounted to only 107,000 barrels. In the following year Mississippi rose to rank as a substantial producer, ahead of such old time states as West Virginia, Ohio, and Colorado. A total of 107 producing wells were drilled and production jumped to 4.4 million barrels. The years 1941 and 1942 brought increasing production, although new wells dropped to 20 in the latter year as all locations in the Tinsley field were drilled. After a decline in both 1943 and 1944, production again started upward in 1945 as new fields were discovered and amounted to over 35 million barrels in 1947 and to approximately 38 million barrels through October 1948, the latest date for which production data are available at the time of this writing. During 1948 a total of 237 producing wells were completed.

Since the time of discovery over 200 million barrels have been produced, over one-half of which has come from the original Tinsley field. This field, while still of major importance, is now rivaled by the Baxter field in Lamar and Marion Counties. All the fields are in the southern part of the state.

Some idea of the economic importance of this development to Mississippi may be gained from the fact that the state severance tax of \$0.06 per barrel or 6 per cent of value, whichever is the greater, produced \$3.4 million in 1947 and \$6.5 million in 1948. These sums were 7.3 and 12 per cent of all taxes collected by the State Tax Commission in the respective years. United States Bureau of Mines data show the value of crude petroleum at the wells from 1939 to 1945, inclusive,



amounted to \$99 million. The 1948 severance tax collections indicate that the value in the latter year amounted to \$108 million. The value of the cotton and cotton seed crop in Mississippi is roughly estimated at \$500 million and the total income in the state at \$1,700 million for 1948. This would indicate that the value of oil produced in 1948 approximated one-fifth the value of the most important industry and one-seventeenth the total income in the state.

Of the 29 states that levy a sales tax, 21 also levy a use tax to protect their revenues. The U. S. Supreme Court has gone far in upholding the legality of such use taxes and in permitting the states to require their collection from the vendor, even where interstate commerce is involved. Consequently, a recent decision by the Mississippi Supreme Court is of interest. The state attempted to require payment by the vendor of the use tax on a sale made to a Mississippi purchaser by a nonresident salesman. The vendor was not qualified to do business in the state and maintained no office, place of business, or resident agent in the state. Delivery was not made in Mississippi but to a common carrier outside the state. The court held (*Reichman-Crosby Co. v. Stone*) that the vendor was not doing business in the state and that it could not be required to collect and pay the tax. A distinction was drawn between Reichman-Crosby and concerns like Sears, Roebuck and Montgomery Ward which maintain a place of business within the state and therefore subject themselves to the jurisdiction of the state. This decision restricts Mississippi in the collection of its use tax beyond limitations imposed by the Federal Constitution, since the U. S. Supreme Court in the case of *General Trading Company v. State Tax Commission*, 322 U. S. 335, upheld the similar use tax statute of Iowa under substantially identical facts.

Considerable concern and discussion have been occasioned by the decision of the Mississippi Supreme Court in the case of *State Highway Commission v. Coahoma County* which has threatened the anticipated rural road program on which a Legislative Recess Highway Planning Committee is working. Before the state inaugurated its statewide highway program in 1936, a number of counties had proceeded to build highways at their own expense. The Stansel Road Act of 1930 provided that counties and cities would be reimbursed on an appraised value for that part of the "pavement on" roads which they built when they were taken into the state system. Many of these roads were later taken over and incorporated in the state system without payment to the counties. Several counties brought suit to force the appraisal. The state maintained (with the concurrence of sponsors of the 1930 legislation) that the appraisal should be made only on the "pavement on the highway" as stated in the law, but the Supreme Court ruled that "pavement on the highway" meant every cost in building it, including the rights of way, gravel and dirt surfacing, culverts, bridges, and other incidentals. The liability of the state under this ruling is estimated up to \$30,000,000, the loss of which will seriously impair any road building program. A number of proposals and compromises have been advanced but, as of this writing, none appear to be satisfactory to all concerned.

*University of Mississippi*

DAVID McKINNEY

## NORTH CAROLINA

Continued curtailment of production schedules in the textile industry has been the rule throughout the winter. Unemployment has increased steadily and at the end of January appears to be considerably greater than at any time in 10 years. Its proportions, however, are not startling and it does not seem to have had very adverse effects upon the volume of retail trade thus far. Larger than usual price concessions in the postholiday clearance sales have maintained volume at good levels. The other important industries of the state remain on fairly high levels of production and employment, although some, notably the lumber industry, have had to contend with considerably weakened price structures. The general downward trend of agricultural prices promises lower levels of prosperity for farmers in 1949.

Amid such conditions the state legislature has met in its biennial session and a new governor, pledged to increased expenditures for road building and for public education, has been inaugurated. During the past eight years the state government has enjoyed handsome surpluses that have enabled it to pay off practically all its indebtedness while setting up reserves for certain specific uses. Now the legislature is considering a budget calling for expenditures of \$258,752,000 for general fund purposes and \$120,731,000 for road building and maintenance during the biennium beginning July 1, 1949. Comparable figures approved two years ago were \$191,692,000 and \$117,761,000. In addition it is proposed to spend \$71,800,000 from the general fund surplus for buildings at state institutions, including completion of a four-year medical school and establishment of a dental school at the University at Chapel Hill. The proposed increases in general fund expenditures would go largely for public education. Beyond this it is recommended that the sum of \$13,318,000 be appropriated to increase teachers' salaries during the current school year. Present revenue sources cannot be expected to support such expenditures in the absence of continuing boom conditions.

The Governor proposes, but the legislature has not yet approved, a popular referendum on the issuance of \$200,000,000 of bonds to construct all-weather secondary roads. The expenditure of such a sum over a period of four years, if it be possible to spend it in that length of time, would, of course, help to support business in the state and thus to maintain state revenues.

An increase of the tax rate on gasoline from 6 cents to 7 is a part of the Governor's program, but the state's municipalities, caught between heavy demands for increased expenditure and fairly inflexible tax sources, are making a strong plea for a division with them of the proceeds of this tax. The ability of the municipalities to borrow is limited by taxable property values, which have not been generally revised upward since the inflation began. Moreover, popular referenda are required on all bond issues except certain limited ones for so-called "necessary" purposes. In the November elections the voters refused to remove existing constitutional limitations upon the creation of debt without their direct approval. Both the state government and the municipalities thus find themselves impelled toward the expansion of functions to the limit of available funds

at a time when every observation of economic conditions within the state seems to dictate caution.

*Davidson College*

C. K. BROWN

### TENNESSEE

Tennessee continues on her march to greater and more diversified industrialization. In 1948, a total of 295 new industrial projects were completed, in progress, or definitely planned in 68 cities and towns widely scattered over the state. This figure includes new manufacturing and mining developments or expansions of existing facilities. Of this number, 172 are new industries in 52 communities. This means a job expansion estimated at 6300 workers and a known or calculable total investment of more than \$48,500,000. The number of new industrial projects is six less than the new projects in 1947, but the combined investment is well over a million dollars more. All these figures include mainly those developments involving investments of over \$25,000 each, but does not include investments of public funds at the Oak Ridge atomic energy center, totaling approximately \$20,000,000 for the year.

These new projects, together with the already established ones, brought the dollar total of Tennessee's industrial production for 1948 to more than five times the cash receipts from farm marketing during that period. Production valued at more than \$2,750,000,000 emerged from the diversified manufactured processes and assembly lines of industrial plants over the state. This industrial output is flowing from upward of 3200 plants valued at \$25,000 or over and from myriad lesser manufacturing or processing establishments.

It is estimated that more than \$575,000,000 was paid in wages and salaries to persons engaged in industrial work in 1948. This is \$35,000,000 more than they received in 1947.

Cash receipts from the state's agricultural production—corn, tobacco, cotton, truck crops, livestock, dairy products, and other items—brought in another half billion. Thus with more than \$3,000,000,000 worth of industrial and agricultural production, employment in practically every county in the state has registered gains.

High production has brought better economic conditions with the result that revenues from taxation are up. The revenue collections for the fiscal year, ending June 30, 1948, were \$125,342,833.11 as compared with collections of only \$74,595,068.41 for the fiscal year 1947. This is a new record. However, in the total revenues for 1948, there is a \$41,067,477.16 sales tax receipts item. These state cash receipts have continued to climb during the first six months of the current fiscal year.

This increased revenue allowed the state to pay off \$6,160,000—nearly 7 per cent—on its debt early in December. This will reduce the state debt to \$82,987,118.02.

In 1937, a Debt Retirement Act was adopted and Tennessee began to put her financial house in order. Since that time the debt has been reduced by slightly more than 50 per cent.

Lest one get the impression that Tennessee is "rolling" in revenues, let us not

overlook the fact that there has been a tremendous increase in operating expenses of the state government, particularly in such items as salaries, motor vehicle operation, and traveling expenses. Moreover, the principal worry of the 1949 General Assembly and of a new administration will be that of learning how to spread a limited amount of money around to the people who are making unlimited requests for it. There is hardly a state department or agency that feels it is now getting enough. If you take their word for it, the agencies need millions of dollars more a year. These million dollar demands will give the legislature a real headache. Tennessee seems to have too much bread, but not enough butter.

*George Peabody College*

JAMES E. WARD

### VIRGINIA

General business conditions in Virginia during 1948 may be described as following the national pattern. Production and income stay around record levels and there is the same old apprehension. The cause of apprehension today is the fear of higher taxes on business profits and higher wage demands inspired by the mirage of large corporate earnings. While income payments in Virginia were slightly higher than in 1947, business barometers indicate that the peak was reached probably in 1948, and in order to maintain the high level of prosperity attained some price adjustments will be necessary. The price picture has been somewhat erratic. One significant aspect of it is that there has been no recession in durable goods prices due, in part, to support through consumer borrowing. On the other hand, prices of nondurables began settling down in the last months of 1948 because of 1) surpluses and 2) slackening demand. The slack demand was the result of incomes failing to keep abreast of the rise in cost of living. The cost of living index reached its peak in August 1948. And for 28 per cent of the employees in the state, the rise was faster than their wages.

There was a net decrease in employment throughout the state due largely to decreases in the nondurable goods industries and in government payrolls. Employment in mines declined because the mines have been operating at about 80 per cent capacity for the past 12 months. Small gains in employment were registered in the heavy goods industries, especially lumbering and shipbuilding.

While retail sales showed a decline during the last quarter of 1948, total sales during the first 11 months were 8 per cent above those of the same period of 1947. Some commodities showed a sharp drop, such as major household appliances, which began dropping in September and by the end of the year had lost 50 per cent of the gains registered since 1942. The advance of television caused radio sales to strengthen. Furniture sales at the year-end were rolling over, indicating that these had reached their peak. In general, however, retail sales were favorable and should continue so for several months provided some price adjustments can be made.

There were several financial factors of major importance. Bank debits in the eight leading centers of Virginia for the September-November quarter increased 11.6 per cent over the same period of 1947. This was greater than for the country at large. According to the report of the Board of Governors of the Federal

Reserve System, bank debits as reported for the 333 centers were 8.5 per cent above those of 1947. Bank loans, including commercial, industrial, real estate, and consumer loans, declined during the year. Among the factors which account for this are the anti-inflationary program recommended to its members by the American Bankers Association, tighter control of credit by the banking system, and closer scrutiny of bank reserves. Individual savings increased during the year as reflected in the sales of new paid-for life insurance in Virginia. These sales for the first 11 months of 1948 were 10.8 per cent greater than for the same period of 1947.

Cash receipts from farm marketings in Virginia for 1948 were good, though net farm income for the year was less than in 1947. There were several significant changes in the relative importance of the various income sources during 1948. The prices of cattle and hogs moved downward during the last months. But income from these sources was not materially affected due to the lower costs of preparing the animals for market. Prices of Virginia's major crops held up well partially because of federal support. Virginia's flue-cured tobacco sales were not as large as in 1947 but the price per hundred was higher. Total producers' sales through November 1948 amounted to almost 126 million pounds, and averaged \$50.12 a hundred pounds. Farm labor continued scarce, and wages high, but this was not a handicap because of the increased use of improved machinery. Virginia farm real estate values rose slightly during the year. Indications are for a continuation well into 1949 of favorable farm conditions in the state. The present price support policy of the federal government, especially of tobacco and cotton, will give about the same level of income. Some increase in meat prices is predicted. This will cause a shift in demand to poultry, and since the supply is ample, the income of poultry farmers will be larger. A drop in the price of milk may be expected, which will cause a decrease in the prices of butter and cheese.

There was a sharp break in construction in Virginia in 1948. Value of contracts awarded for most types of private construction declined. Many completed homes were being held longer before being sold. While there was a sharp increase in manufacturing construction contracts, it was more than offset by the decrease of almost 50 per cent in construction of apartments and hotels. There was some increase in public buildings construction such as churches, schools, and hospitals.

In conclusion, the national picture indicates a stabilizing of business conditions for the last months of 1948 and the early months of 1949. Virginia appears to be following this pattern but on a somewhat higher level. One of the main factors in the Virginia picture is farm income. This, barring bad weather and unfavorable legislation, should remain at a level approximating that of 1948. For business in general, indications are that the peak has been reached, and that considerable rolling over is already taking place. Immediate changes will probably be in the form of price adjustments without any serious price declines in the next few months.

*University of Richmond*

HERMAN P. THOMAS

## PERSONNEL NOTES

Wendell M. Adamson, statistician in the Bureau of Business Research of the School of Commerce and Business Administration, University of Alabama, has been granted a leave for the remainder of the academic year 1948-1949 to do graduate work at Columbia University.

Karl A. Boedecker, associate professor of finance in the College of Business Administration, University of Tennessee, is on leave of absence for graduate study at Harvard University.

Edward J. Boling is instructor in statistics in the College of Business Administration, University of Tennessee.

Gladys Boone, professor of economics at Sweet Briar College, has been appointed chairman of the Division of Social Studies for the period of 1948-1950.

James Buchanan has joined the faculty of the College of Business Administration, University of Tennessee, as associate professor of economics.

Clyde Crobaugh has joined the faculty of the College of Business Administration, University of Tennessee, as professor of finance.

Charles M. Drummond has been appointed instructor in economics at Converse College.

W. A. Flinn has been appointed instructor in economics in the School of Business Administration, Emory University.

Donald Gardiner is assistant professor of statistics in the College of Business Administration, University of Tennessee.

Gilbert Gifford is associate professor of transportation in the College of Business Administration, University of Tennessee.

Durwood C. Hanvey has been appointed instructor in economics and government at the University of Chattanooga.

Vern G. Hefte has been appointed assistant professor of accounting in the College of Business Administration, University of Tennessee.

O. E. Heskin, who has been on leave of absence for a year with the U. S. State Department, has returned to the University of Florida as head professor of economics.

Paul M. Hummel has been promoted to professor of business statistics in the School of Commerce and Business Administration, University of Alabama.

Allen H. Keally has been appointed associate professor of industrial management in the College of Business Administration at the University of Tennessee.

William P. Layton has joined the staff of the University of Georgia, Division of General Extension, and will spend all of his time promoting and directing extension activities in the fields of business and public administration.

Donald J. May, instructor in economics at the School of Business Administration, Emory University, is on leave of absence to continue his graduate work at the University of Chicago.



William McGuffie has become instructor in accounting in the College of Business Administration at the University of Tennessee.

Henry N. Mims has been appointed instructor in management in the School of Commerce and Business Administration at the University of Alabama.

Earl Phillips has joined the faculty of the School of Business Administration at Emory University as instructor in business law.

William E. Roberts is now associate professor of economics at Mississippi State College for Women.

Ross M. Robertson has been appointed assistant professor of finance in the College of Business Administration, University of Tennessee.

Alfred G. Smith, associate professor of economics at the University of South Carolina, is on leave during the spring semester for the purpose of completing his work for the doctorate at Columbia University.

Wesley P. Watkins has resigned from the faculty of the College of Business Administration, University of Georgia, to join the staff of the Augusta (Georgia) Junior College.

William H. Whitney has been promoted to professor of accounting in the School of Commerce and Business Administration at the University of Alabama.

Jack Wilcox, formerly professor of economics and dean of men at Missouri Valley College, has become associate professor of finance in the College of Business Administration, University of Tennessee.

The following names have been added to the membership of the Southern Economic Association:

Edward L. Bell, 417 Grant Building, Atlanta, Ga.

Malcolm D. Bryan, 10 16th Street, SE., Atlanta, Ga.

A. Aldo Charles, University of Georgia, Athens, Ga.

Jesse C. Clamp, Box 4412, Duke Station, Durham, N. C.

Clay L. Cochran, University of North Carolina, Chapel Hill, N. C.

John R. Craf, University of Louisville, Louisville 8, Ky.

Walter J. Deal, 48 W. 102nd Street, Orangeburg, N. Y.

Paul V. Grambsch, Box 111, University, Miss.

D. G. Miley, Delta Branch Experimental Station, Stoneville, Miss.

Melvin Greenhut, 964 Lakeview Drive, Auburn, Ala.

Emile P. Grenier, University of Mississippi, University, Miss.

Eugene W. Griner, 182 Wray Street, Athens, Ga.

William C. Hall, Box 5591, College Station, Raleigh, N. C.

H. A. Hanna, 2239 Crawford Road, Durham, N. C.

John W. Kennedy, University of North Carolina, Chapel Hill, N. C.

Randolph G. Kinabrem, Box 111, University, Miss.

Harold J. King, Louisiana State University, Baton Rouge, La.

Robert Lorenz, University of Georgia, Athens, Ga.

John W. McConnell, Jr., 306 Weinacker Avenue, Mobile, Ala.

James P. McMahon, University of Miami, Miami, Fla.

C. Arnold Matthews, University of Florida, Gainesville, Fla.

Walter C. Neale, The Woman's College, University of North Carolina, Greensboro, N. C.

William H. Nicholls, Box 85, Vanderbilt University, Nashville, Tenn.

George S. Petras, University of Georgia, Athens, Ga.

Gaines M. Rogers, Wake Forest College, Wake Forest, N. C.

Victor V. Sweeney, The Travelers Insurance Company, Hartford 15, Conn.

Howard Wissner, Alabama Polytechnic Institute, Auburn, Ala.

## NOTES

### SOUTHERN ECONOMIC ASSOCIATION

#### *Receipts and Expenditures for the Fiscal Year Ended October 31, 1948*

November 1, 1947, Cash on Hand.....			\$ 684.93
Receipts:			
Annual Memberships.....	\$1,203.00		
Institutional Memberships.....	20.00		
Dividend on Investments.....	6.94		
Transferred from Investment Account.....	555.66	1,785.60	
			<u>\$2,470.53</u>
Expenditures:			
Stamps.....	\$ 44.85		
Printing.....	100.17		
Telephone & Telegraph.....	12.52		
Supplies.....	18.73		
Travel.....	38.14		
Miscellaneous.....	110.19	324.60	
The Southern Economic Journal			
Subscriptions (Annual).....	\$802.00		
Subscriptions (Inst'l).....	6.00		
Special Grant.....	400.00	1,208.00	1,532.60
Cash on Hand, October 31, 1948.....			<u>937.93</u>
			<u>\$2,470.53</u>

#### *Investment Account*

Total investments as of October 31, 1947 (Fort Hill Savings & Loan Asso., Clemson, S. C.).....	\$ 555.66
Dec. 31, 1947—Dividend for July—December, 1947.....	6.94
	<u>\$ 562.60</u>
March 16, 1948—Dividend withdrawn.....	6.94
March 16, 1948—Balance as of October 31, 1947, withdrawn and Investment Account closed.....	555.66
	<u>\$ 562.60</u>
Total Amount transferred to General Fund.....	<u>\$ 562.60</u>

JOHN B. McFERRIN  
*Treasurer*

## THE SOUTHERN ECONOMIC JOURNAL

*Receipts and Expenditures for the Fiscal Year Ended October 31, 1948*

Cash Balance, November 1, 1947.....	\$1,726.37
Receipts:	
Annual Grants:	
University of North Carolina.....	\$500.00
North Carolina State College (U. of N.C.).....	250.00
The Woman's College (U. of N.C.).....	250.00
Total Annual Grants.....	\$1,000.00
Southern Economic Association:	
Annual Membership Fees.....	\$802.00
Institutional Membership Fees.....	6.00
Special Grant.....	400.00
Total Southern Economic Association.....	1,208.00
Library Subscriptions.....	1,100.25
Advertisements.....	947.18
Miscellaneous Sales.....	75.75
Total Receipts.....	4,331.18
Total Cash Balance and Receipts.....	<u>\$6,057.55</u>
Expenditures:	
Printing the Journal.....	\$3,528.92
Salaries.....	942.00
Postage, Telephone, and Telegraph.....	105.71
General Expense.....	83.84
Supplies.....	72.91
Other Printing.....	40.28
Total Expenditures.....	4,773.66
Cash Balance, October 31, 1948.....	1,283.89
	<u>\$6,057.55</u>

G. T. SCHWENNING  
*Managing Editor*

\* \* \* \* \*

President Aull has appointed the nominating committee for the 1950 officers of the Southern Economic Association. The committee is composed of Dr. W. T. Hicks, University of Georgia (Chairman), Dr. W. L. Gibson, Virginia Polytechnic Institute, and Miss Sadie Young, Florida State University. All members of the Association who wish to suggest possible nominees to this committee are invited to do so not later than August 15.

The 19th annual conference of the Southern Economic Association will be held at the Andrew Jackson Hotel in Knoxville, Tennessee, November 18-19.

John B. McFerrin, *Secretary-Treasurer*  
*Southern Economic Association*

## BOOKS RECEIVED

- Customs Valuation in the United States: A Study in Tariff Administration.* By R. Elberton Smith. Chicago: University of Chicago Press, 1948. Pp. xv, 380. \$7.50.
- Cybernetics: Or Control and Communication in the Animal and the Machine.* By Norbert Wiener. New York: John Wiley & Sons, 1948. Pp. 194. \$3.00.
- Agricultural Economics.* By Benjamin Horace Hibbard. New York: McGraw-Hill Book Co., 1948. Pp. x, 441. \$5.00.
- Money and Banking.* By Jay L. O'Hara. New York: Pitman Publishing Corp., 1948. Pp. xx, 671. \$4.75.
- Corporation Finance.* By Floyd F. Burtchett and Clifford M. Hicks. Rev. ed. New York: Harper & Bros., 1948. Pp. vi, 712.
- Applied Economic Analysis.* By Francis M. Boddy and others. New York: Pitman Publishing Corp., 1948. Pp. xvi, 573. \$3.75.
- The Truman Program: Addresses and Messages by President Harry S. Truman.* Edited by M. B. Schnapper. Washington: Public Affairs Press, 1948. Pp. x, 261. \$2.95.
- Public Finance.* By Alfred G. Buehler. 3rd ed. New York: McGraw-Hill Book Co., 1948. Pp. xiii, 740. \$5.00.
- Introduction to Fiscal Policy.* By Richard W. Lindholm. New York: Pitman Publishing Corp., 1948. Pp. xiii, 235. \$2.75.
- Price Economics.* By Robert B. Pettengill. New York: Ronald Press Co., 1948. Pp. xiii, 483. \$4.50.
- American Banking System: A Sketch.* By R. S. Sayers. Oxford: Clarendon Press, 1948. Pp. vi, 130. \$2.00.
- Taxation of Manufacturing in the South.* By James W. Martin and Glenn D. Morrow. University: Bureau of Public Administration, University of Alabama, 1948. Pp. viii, 110.
- Resource Management in North Carolina: A Study in Public Administration.* By Paul W. Wager and Donald B. Hayman. Chapel Hill: Institute for Research in Social Science, University of North Carolina, 1947. Pp. x, 192.
- Rescued Earth: A Study of the Public Administration of Natural Resources in Tennessee.* By Lee S. Greene and others. Knoxville: University of Tennessee Press, 1948. Pp. x, 204.
- Mississippi's Wealth: A Study of the Public Administration of Natural Resources.* By Robert Baker Highsaw. University: Bureau of Public Administration, University of Mississippi, 1947. Pp. x, 190.
- South Carolina's Natural Resources: A Study in Public Administration.* By Christian L. Larsen. Columbia: University of South Carolina Press, 1947. Pp. xi, 211.
- Safeguarding Kentucky's Natural Resources.* By Vera Briscoe and others. Lexington: University of Kentucky, 1948. Pp. x, 224.
- Alabama's Heritage: A Study of the Public Administration of Natural Resources.* By Joseph M. Ray and Lillian Worley. University: Bureau of Public Administration, University of Alabama, 1947. Pp. x, 186.
- Job Horizons: A Study of Job Satisfaction and Labor Mobility.* Lloyd G. Reynolds and Joseph Shister. New York: Harper & Bros., 1949. Pp. x, 102. \$2.25.
- The Economics of John Maynard Keynes: The Theory of a Monetary Economy.* By Dudley Dillard. New York: Prentice-Hall, 1948. Pp. xi, 364. \$3.75.

- Readings in Social Security.* Edited by William Haber and Wilbur J. Cohen. New York: Prentice-Hall, 1948. Pp. xix, 634. \$5.75.
- Sugar: Facts and Figures.* New York: United States Cuban Sugar Council, 1949. Pp. 159.
- Money and Banking.* By Frederick A. Bradford. New York: Longmans, Green and Co., 1949. Pp. xvii, 860. \$4.75.
- Labor in the American Economy.* By William Stephen Hopkins. New York: McGraw-Hill Book Co., 1948. Pp. xi, 368. \$3.50.
- A Fragment on Government and an Introduction to the Principles of Morals and Legislation.* By Jeremy Bentham. New York: Macmillan Co., 1948. Pp. lxvii, 435. \$2.25.
- Modern Economic Problems.* By Albert L. Meyers. New York: Prentice-Hall, 1948. Pp. xvii, 350. \$3.25.
- Mutual Savings Banks in the Savings and Mortgage Markets.* By John Lintner. Boston: Division of Research, Harvard University Graduate School of Business Administration, 1948. Pp. xi, 559. \$6.50.
- The Earth and Man: A Human Geography.* By Darrell Haug Davis. Rev. ed. New York: Macmillan Co., 1948. Pp. xxiv, 696. \$5.50.
- Accountants' Reports.* By William H. Bell. 4th ed. New York: Ronald Press Co., 1949. Pp. vii, 374. \$7.00.
- Airport Management.* By John H. Frederick. Chicago: Richard D. Irwin, 1949. Pp. xv, 316. \$4.00.
- American Transportation in Prosperity and Depression.* By Thor Hultgren. New York: National Bureau of Economic Research, 1949. Pp. xxxiii, 397. \$5.00.
- Personnel Management: Principles, Practices and Point of View.* By Walter Dill Scott and others. 4th ed. New York: McGraw-Hill Book Co., 1949. Pp. xii, 648. \$4.50.
- Fluctuations in Income and Employment: With Special Reference to Recent American Experience and Post-War Prospects.* By Thomas Wilson. 3rd ed. New York: Pitman Publishing Corp., 1948. Pp. x, 217. \$4.00.
- The Brazilian Economy: Chronic Inflation and Sporadic Industrialization.* By Henry William Spiegel. Philadelphia: Blakiston Co., 1949. Pp. xiii, 246. \$4.50.
- Company Annual Reports to Stockholders, Employees, and the Public.* By Thomas H. Sanders. Boston: Division of Research, Harvard University Graduate School of Business Administration, 1949. Pp. xiii, 338. \$3.75.
- Industrial Psychology and Its Social Foundations.* By Milton L. Blum. New York: Harper & Bros., 1949. Pp. xi, 518. \$4.50.
- Private Enterprise: Fair or Unfair?* By Sherman Rogers. New Wilmington, Pa.: Economic and Business Foundation, 1948. Pp. 13. Paper, 35¢.
- The Cause and Cure of "Dollar Shortage."* By Frank D. Graham. Princeton, N. J.: International Finance Section, Princeton University, 1949. Pp. 15.
- The Business Outlook, 1949.* By Edwin B. George and others. New York: National Industrial Conference Board, 1948. Pp. 56. Paper, 50¢.
- Guaranteed Employment and Wage Plans: A Summary and Critique of the Latimer Report and Related Documents.* By William A. Berridge and Cedric Wolfe. New York: American Enterprise Association, 1948. Pp. 87. Paper, 50¢.
- Demands for Labor: Opportunities for Research.* By Dale Yoder. New York: Social Science Research Council, 1948. Pp. vi, 40. Paper, 50¢.
- The European Economic Situation—1948.* By Frank Sweeney. New York: American Enterprise Association, 1948. Pp. 40. Paper, 50¢.



- State Supervision of the Property Tax Assessments in Kentucky.* By Beulah Lea Pardue. Lexington: Bureau of Business Research, University of Kentucky, 1948. Pp. 67.
- Kentucky State Purchasing.* By Alva Marian Matherly. Lexington: Bureau of Business Research, University of Kentucky, 1948. Pp. 61.
- The Economics of the Money Supply.* Washington: Chamber of Commerce of the United States, 1948. Pp. 39. Paper, 25¢.
- The Economics of Strip Coal Mining: With Special Reference to Knoz and Fulton Counties, Illinois.* By Herman D. Graham. Urbana: Bureau of Economic and Business Research, University of Illinois, 1948. Pp. 77.
- Delivered Pricing and the Law.* Washington: Chamber of Commerce of the United States, 1948. Pp. 27. Paper, 20¢.
- Housing and Employment.* Geneva: International Labour Office, 1948. Pp. 147. Paper, 75¢.
- Balance of Payments, 1939-1945.* Geneva: United Nations, 1948. Pp. 207. Paper, \$2.50.
- The State of Food and Agriculture, 1948.* Washington: Food and Agricultural Organization of the United Nations, 1948. Pp. 216. Paper, \$2.00.
- Problems for Economic Analysis.* By Clark Lee Allen and others. New York: Prentice-Hall, 1948. Pp. 148. Paper, \$1.85.
- Collective Bargaining.* By Herman Lazarus and Joseph J. Goldberg. Washington, D. C.: Public Affairs Institute, 1949. Pp. 72. 50¢.
- Report of the New York State Advisory Council on Placement and Unemployment Insurance for the Year 1948.* New York: State of New York Department of Labor, Division of Placement and Unemployment Insurance, 1949. Pp. 57.
- Cotton Textile Wages in the United States and Great Britain: A Comparison of Trends, 1860-1945.* By Roland Gibson. New York: King's Crown Press, Columbia University, 1948. Pp. ix, 137. \$2.50.



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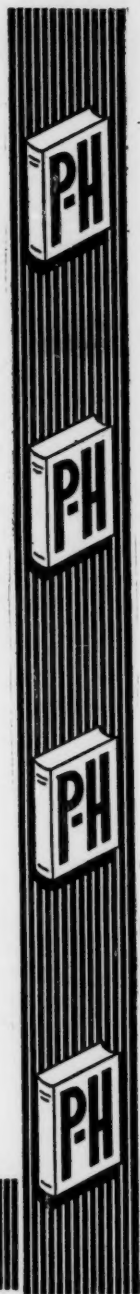
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## Contents

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Bentham and J. S. Mill.....	<i>Jacob Viner</i>
Public Expenditure Policy.....	<i>P. J. Strayer</i>
Federal Reserve Policy and Federal Debt.....	<i>L. V. Chandler</i>
Law and Economics of Basing Points.....	<i>J. M. Clark</i>
Pricing in Monopoly and Oligopoly.....	<i>J. S. Bain</i>
The State of the "New Economics".....	<i>H. S. Ellis</i>
Equilibrium of the Firm.....	<i>R. A. Lester</i>
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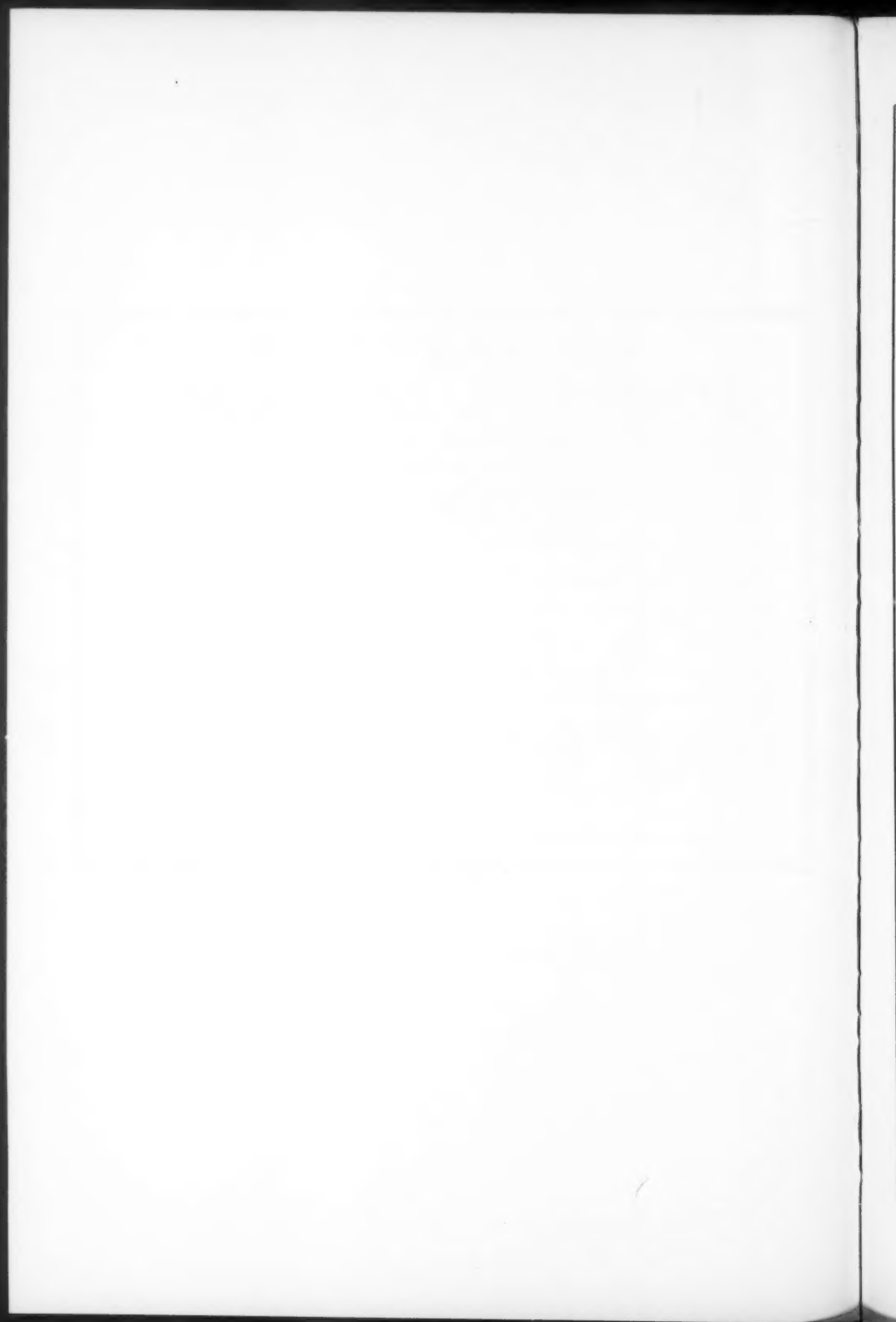
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## ANNUAL INDEX

<i>Issues</i>	<i>Pages</i>
July, No. 1.....	1-116
October, No. 2.....	117-248
January, No. 3.....	249-378
April, No. 4.....	379-509

## ARTICLES

ABRAHAMSON, MARTIN A. Marketing Research in Agriculture.....	80
BARKIN, SOLOMON. The Regional Significance of the Integration Movement in the Southern Textile Industry.....	395
BERNSTEIN, IRVING, and WARREN, EDGAR L. The Mediation Process.....	441
BRANDT, L. K. Sources of Funds for Financing Plant Expansion, 1946-1948.....	279
CARTER, JOHN P. Recent Developments in Railroad Freight Rates.....	379
CURTIS, WILLIAM R. The Development of Unemployment Insurance in the South.....	43
EBERLING, E. J. Old Age and Survivors' Insurance and Old Age Assistance in the South.....	54
FREUND, RUDOLPH. Methods of Financing the European Recovery Program.....	267
GRIFFITH, E. C. Some Aspects of the South's Financial Development, 1929-1946.....	162
GRUCHY, ALLEN G. J. M. Keynes' Concept of Economic Science.....	249
HAMBERG, D. Minimum Wages and the Level of Employment.....	321
HOCH, MYRON L. The Oil Strike of 1945.....	117
JOHNSON, D. GALE. Mobility as a Field of Economic Research.....	152
LEITER, ROBERT D. Supervisory Employees and the Taft-Hartley Law.....	311
LOGSDON, C. S. Some Comments upon the Effectiveness of State and Local Area Development Programs.....	303
MACON, HERSHAL L. War and Postwar Developments in State Expenditures for the Southeast.....	30
MEYERS, FREDERIC. Organization and Collective Bargaining in the Local Mass Transportation Industry in the Southeast.....	425
PARRISH, JOHN B. Impact of World War II on Internal Wage Rate Structures.....	134
POWERS, RICHARD. The Labor-Management Relations Act of 1947: A Topical Digest.....	67
RANDLE, C. WILSON. Restrictive Practices of Unionism.....	171
REED, EDWARD W. Coordination of Federal and State Income Taxes.....	458
SMITH, HOWARD R. The Status of Stagnation Theory—Part I.....	191
——— The Status of Stagnation Theory—Part II.....	289
SMITH, VICTOR E. Note on the Kinky Oligopoly Demand Curve.....	205
SPENGLER, JOSEPH J. The Problem of Order in Economic Affairs.....	1

STEPHENSON, FRANCIS M., SUFRIN, SIDNEY C., and SWINYARD, ALFRED W. The North-South Differential—A Different View.....	184
SUFRIN, SIDNEY C., SWINYARD, ALFRED W., and STEPHENSON, FRANCIS M. The North-South Differential—A Different View.....	184
SWINYARD, ALFRED W., SUFRIN, SIDNEY C., and STEPHENSON, FRANCIS M. The North-South Differential—A Different View.....	184
VAN SICKLE, JOHN V. Industrialization and the South.....	412
WARREN, EDGAR L., and BERNSTEIN, IRVING. The Mediation Process.....	441

## BOOK REVIEWS

ADAMS and TRAYWICK, eds. Readings in Economics. (Francis E. McVay).....	345
AMONN. Grundzüge der theoretischen Nationalökonomie. (Carl Landauer).....	342
BAIN. Pricing, Distribution, and Employment. (Aurelius Morgner).....	223
BALOUGH. Studies in Financial Organization. (John B. McFerrin).....	218
BENHAM and BODDY. Principles of Economics. (Donald J. May).....	213
BERNSTEIN and others. A Centenary of Marxism. (Earle L. Rauber).....	88
BLACK and KIEFER. Future Food and Agriculture Policy. (John L. Fulmer).....	483
BLINKEN. Wool Tariffs and American Policy. (Harold E. Klontz).....	351
BODDY and others. Applied Economic Analysis. (Frank B. Ward).....	476
BRANDT. Mississippi, Corporate Fees and Taxes. (Joe S. Floyd, Jr.).....	93
BURNS and others. Modern Economics. (Francis E. McVay).....	217
CHAMBERLAIN. The Union Challenge to Management Control. (George T. Starnes).....	482
CHANDLER. The Economics of Money and Banking. (Joe S. Floyd, Jr.).....	219
CONFERENCE ON RESEARCH IN INCOME AND WEALTH. Studies in Income and Wealth. (George E. Lent).....	90
COPELAND and TOWL. The Board of Directors and Business Management. (E. H. Anderson).....	95
CULLITON. The Management of Marketing Costs. (Donald F. Mulvihill).....	488
DILLARD. The Economics of John Maynard Keynes. (David McCord Wright).....	473
DODD and HASEK. Economics. (Karl Morrison).....	213
DONALDSON. Personal Finance. (E. S. Wallace).....	221
DURAND and WINN. Basic Yields of Bonds 1926-1947. (L. K. Brandt).....	96
DURAND. The Labor Force in the United States, 1890-1960. (Richard A. Lester).....	224
ELLIS, ed. A Survey of Contemporary Economics. (Francis J. Kennedy).....	477
EVANS. Business Incorporations in the United States, 1800-1943. (George E. Lent).....	487
FLINK. The American Economy. (W. G. Shover).....	98
FLORENCE. Investment, Location, and Size of Plant. (Buford Brandis).....	231
FROMAN. Introduction to Business. (Buford Brandis).....	231
GIBSON. Cotton Textile Wages in the United States and Great Britain. (George T. Starnes).....	481
GROSS. European Ideologies. (John T. Masten).....	478
GRULIOW, translator. Soviet Views on the Post-War Economy. (Earle L. Rauber).....	344
GUZMAN. Negro Year Book, 1947. (Guy B. Johnson).....	99
HAMILTON. War and Prices in Spain, 1651-1800. (D. Clark Hyde).....	101
HART. Money, Debt and Economic Activity. (Frank W. Tuttle).....	220
HEBERLE. The Labor Force in Louisiana. (Aurelius Morgner).....	350
HUTCHINSON, ed. California Agriculture. (Fisher A. Buckingham).....	100
ISAACS. International Trade. (Gordon Siefkin).....	91
JOHNSON. Forward Prices for Agriculture. (G. W. Forster).....	97
JOME. Corporation Finance. (J. T. O'Neil).....	223
JONES. Practical Job Evaluation. (R. P. Calhoun).....	88
KILLINGSWORTH. State Labor Relations Acts. (George T. Starnes).....	226
KNAUTH. Managerial Enterprise. (E. H. Anderson).....	230
LENT. The Impact of the Undistributed Profits Tax, 1936-1937. (M. Slade Kendrick).....	227
LESTER and SHISTER, eds. Insights into Labor Issues. (John V. Van Sickle).....	225
LEWIS. Procurement. (C. H. McGregor).....	353
LINDHOLM. Introduction to Fiscal Policy. (Clarence Philbrook).....	496
LINTNER. Mutual Savings Banks in the Savings and Mortgage Markets. (Ross M. Robertson).....	479
MACE. The Board of Directors in Small Corporations. (E. H. Anderson).....	354
MADDEN and others. Money Market Primer. (Marshall D. Ketchum).....	347
MARBACH. Luxus und Luxussteuer. (Gerhard Colm).....	229
MARTIN and others. Southern Manufacturer's Tax Bill. (Joe S. Floyd, Jr.).....	96
MILLS. The Structure of Post-War Prices. (Gregor Sebba).....	345
MORGAN. Hawaii: A Century of Economic Change, 1778-1896. (Alexander I. Warrington).....	490

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MUND. Open Markets. ( <i>Frank J. Kottke</i> ).....	232
NEFF and others. Production Cost Trends in Selected Industrial Areas. ( <i>Gregor Sebba</i> ).....	229
O'HARA. Money and Banking. ( <i>Edward C. Simmons</i> ).....	485
PATTERSON. An Introduction to World Economics. ( <i>J. J. Spengler</i> ).....	211
PEACH and KRAUSE. Basic Data of the American Economy. ( <i>George W. Patton</i> ).....	218
PHILLIPS and DUNCAN. Marketing. ( <i>Paul H. Anderson</i> ).....	352
PLANTY and others. Training Employees and Managers. ( <i>Richard P. Calhoun</i> ).....	489
REDER. Studies in the Theory of Welfare Economics. ( <i>David McCord Wright</i> ).....	86
RENNE. Land Economics. ( <i>Robert W. Harrison</i> ).....	94
REYNOLDS and SHISTER. Job Horizons. ( <i>Royal Maltice</i> ).....	489
ROBBINS. The Economic Problem in Peace and War. ( <i>Gregor Sebba</i> ).....	89
ROBINSON. Essays in the Theory of Employment. ( <i>Grover A. J. Noetzel</i> ).....	93
ROSS. Trade Union Wage Policy. ( <i>A. Morgner</i> ).....	348
SAMUELSON. Economics. ( <i>Louell D. Ashby</i> ).....	216
SAYERS. American Banking System. ( <i>Albert S. Keister</i> ).....	484
SCHUMAN. The Management of Men. ( <i>Burton K. Morley</i> ).....	351
SHATERIAN. Export-Import Banking. ( <i>Albert Griffin</i> ).....	87
SILBERNER. The Problem of War in Nineteenth Century Economic Thought. ( <i>J. J. Spengler</i> ).....	212
SLICHTER. The American Economy. ( <i>John V. Van Sickle</i> ).....	475
STABINGER. Die französische Währungspolitik von der Stabilisierung bis zum Ausbruch des zweiten Weltkrieges (1928-1939). ( <i>Franz Gutmann</i> ).....	215
STACKELBERG. Grundlage der theoretischen Volkswirtschaftslehre. ( <i>Fritz Machlup</i> ).....	341
STANWAY. Applied Job Valuation. ( <i>R. P. Calhoun</i> ).....	88
TAFT. Economics and Problems of Labor. ( <i>Richard Powers</i> ).....	349
TAYLOR. The Economics of Public Finance. ( <i>A. G. Griffin</i> ).....	346
UMBREIT and others. Fundamentals of Economics. ( <i>James E. Ward</i> ).....	214
WAUGH. Principles of Economics. ( <i>Fred H. Arnold</i> ).....	92
WEBER. Die neue Weltwirtschaft. ( <i>Gregor Sebba</i> ).....	343
WYTENBACH. Die wechselseitige Konjunkturabhängigkeit von Landwirtschaft und Industrie in den USA, 1919-1941. ( <i>Gregor Sebba</i> ).....	343
ZEISEL. Say It with Figures. ( <i>Gregor Sebba</i> ).....	355

## STATE REPORTS

Alabama ( <i>Langston T. Hawley</i> ).....	103, 234, 356, 492
Florida ( <i>C. H. Donovan</i> ).....	104, 234, 357, 493
Georgia ( <i>Albert Griffin</i> ).....	105, 235, 494
Kentucky ( <i>Rodman Sullivan</i> ).....	106, 357
Louisiana ( <i>Paul T. Hendershot</i> ).....	495
Mississippi ( <i>Clarence E. Kuhlman, David McKinney</i> ).....	107, 236, 358, 496
North Carolina ( <i>C. K. Brown</i> ).....	108, 237, 360, 498
South Carolina ( <i>Glenn R. Smith, T. W. Ferrier</i> ).....	108, 360
Tennessee ( <i>James E. Ward</i> ).....	109, 237, 361, 499
Virginia ( <i>Herman P. Thomas</i> ).....	239, 363, 500

## PERSONNEL NOTES

Personnel Notes.....	111, 241, 365, 502
----------------------	--------------------

## NOTES

Communications.....	337
Announcement of the Southern Economic Association Meeting.....	112, 245, 506
Program of the Southern Economic Association Meeting.....	373
Social Science Forum.....	374
Report of the Treasurer of the Southern Economic Association.....	505
Financial Report of the Managing Editor of the Southern Economic Journal.....	506

## BOOK RECEIVED

Books Received.....	113, 246, 375, 507
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